REPORT

FROM THE

COMMITTEE

OF

PUBLIC ACCOUNTS,

TOGETHER WITH THE

PROCEEDINGS OF THE COMMITTEE,

MINUTES OF EVIDENCE AND APPENDICES.

Ordered, by The House of Commons, *to be Printed,*
1*st August* 1918.

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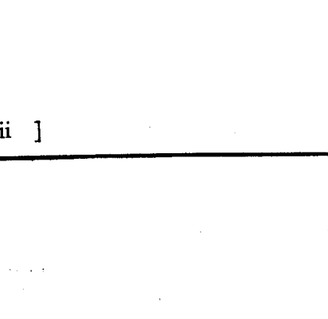
[*Monday*, 18*th February*, 1918.]—Public Accounts Committee,—*Ordered*, That the Committee of Public Accounts do consist of Fifteen Members.

Committee accordingly nominated of,—Mr. Arnold, Mr. Baldwin, Captain Blair, Mr. Brady, Sir Hildred Carlile, Sir Henry Craik, Mr. Hazleton, Mr. Haslam, Sir Charles Henry, Mr. Higham, Colonel Sir Herbert Jessel, Mr. Leif Jones, Mr. Jowett, Sir Robert Williams, and Mr. M'Kinnon Wood.

Ordered, That the Committee have power to send for persons, papers, and records.

Ordered, That Five be the quorum.—(Colonel *Gibbs*.)

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ORDER OF REFERENCE - - - - - - - - - - - - p. ii
REPORT - - - - - - - - - - - - - - p. iii
PROCEEDINGS OE THE COMMITTEE - - - - - - - p. xiv
MINUTES OF EVIDENCE - - - - - - - - - - p. 1
APPENDICES - - - - - - - - - - - - - p. 193

REPORT.

The COMMITTEE OF PUBLIC ACCOUNTS have considered the matters to them referred, and have agreed to the following REPORT:—

CIVIL SERVICE ACCOUNTS.

Outcome of the Accounts.

1. The gross estimates for Civil Service Classes I. to VII. and Revenue and Revenue Departments for the year ended 31st March, 1917, amounted to £90,989,380, and the gross expenditure to £98,005,563 7s. 10d., shewing surpluses amounting to £2,763,871 0s. 11d., and deficits on normal grants of £9,825,054 8s. 9d. Appropriations in Aid estimated at £2,891,882, realised £3,465,814 15s. 8d., or £573,932 15s. 8d. more than was anticipated.

Allocation from Vote of Credit.

2. In addition to the gross provision of £90,989,380, sums amounting to £9,863,135 0s. 6d. (being the gross deficits referred to above, and £38,080 11s. 9d. deficiencies in Appropriations in Aid in seven Votes) have been allocated from the Vote of Credit to meet excesses arising out of war expenditure properly chargeable to the Votes of the Civil Service and Revenue Departments.

Vote of Credit Expenditure.

3. The procedure of former years has been continued and has necessitated issues from the Vote of Credit in the case of 37 votes, and the Comptroller and Auditor-General reports that he is satisfied that the sums so allocated represent expenditure on services falling within the terms of the Vote of Credit. As war expenditure is met from the ordinary vote to the extent that savings are available and only the excess over the normal provision is issued from the Vote of Credit, your Committee wish again to point out that the issues from the Vote of Credit do not represent the total Expenditure incurred by Civil Departments upon the War.

4. In accordance with instructions of the Treasury, Civil Service estimates are prepared on a pre-war basis, no changes due to the War being included. As a result the estimates in many cases make no pretence to represent the real expenditure of the year. Your Committee are of opinion that the estimates should present as accurate a forecast as possible of the expenditure of the coming year, and that all foreseen items should be included. At the same time an estimate of the expenditure due to the war might be made, and deducted from the total estimate so as to shew on the face of the vote the estimated expenditure of the year on a peace footing.

Class I., Vote 10.—Departure from Normal Contract Procedure.

5. The Office of Works stated in a letter to the Treasury "that in order to meet unforeseen demands which had been made on this Department in connection with the Public Service in consequence of the War, it has been found necessary in making contracts and purchasing goods to depart from the normal contracts procedure." The Treasury satisfied themselves that in many cases Officers of the Departments were able to assure themselves of the reasonableness of prices so paid, but they placed on record their view that no *prima facie* check of that kind appears to them to be so likely to be direct and effective as that which was furnished automatically by competition. They further expressed the hope that the Office of Works would restrict, as far as possible, such purchases and that they, at the end of the War, might be informed of the total amount of the expenditure so incurred. Q. 4.

Class III., Vote 7.

6. Your Committee were again informed that it was not found possible in the present state of public affairs to introduce the Expenses of Aid to Police Bill, but assurance was given that the matter will not be forgotten. Q. 227.

Class II., Vote 12.

7. The Comptroller and Auditor-General reported that an Officer absent on military service had been nominated as private secretary to one of the Charity Commissioners and had had assigned to him from the 1st March, 1917, the £100 per annum usually granted, although he had not taken up his duty. On the matter being referred to the Treasury, covering sanction was given for the action taken, a course which your Committee regret. As, however, the Officer in question received the money bona fide your Committee will not disallow the amount, but they regret that payment of public money should have been made for services that could not be rendered; a practice that, if it prevails elsewhere, should cease. Q. 509.

Vote 18.

8. With reference to the reports of former Public Accounts Committees on the question of reducing the number of Commissioners under the Board of Control, no opportunity has as yet arisen for doing this. Q. 538.

Woods, Forests and Land Revenues.

Q. 608. 9. The Public Accounts Committee of 1917 enquired into the practice of the Office of Woods with regard to the allocation of the value of the annual fall of timber, and a suggestion was made that the Office should be treated under the law applying to settled estates, that is to say, that three-quarters of the net profits of the sale must be carried to capital. Your Committee understand that the principle is already adopted with regard to mines under the Office of Woods (where one-half the proceeds is carried to capital), and approve the suggestion that it be applied to sales of timber.

Inland Revenue—Excess Profits Duty.

10. The Comptroller and Auditor-General reported that in certain cases connected with Excess Profits Duty he has been unable to procure all the documents necessary for his audit. It appears that in some cases liability to the duty is determined by the Surveyor after inspection of the tax-payers' books, and consequently there are no documents available for production to the Comptroller and Auditor-General. In reply to a suggestion that in future the necessary documents might be forthcoming, the Board of Inland Revenue pointed out that in the exercise of their statutory discretion they were at liberty to call for documents or to adopt other measures necessary for the purpose of making an assessment. In some other cases the local Commissioners of Income Tax declined to permit the production to the Comptroller and Auditor-General of Accounts which, though rendered to them by private individuals for Income Tax purposes, were also necessary to him for the audit of Excess Profits Duty. Your Committee appreciate the difficulty of requiring the books of private firms to be submitted to the Comptroller and Auditor General, and also appreciate the effect of this on the conduct of his audit. They suggest that a conference on the question be held between the two Departments and the Treasury, with the view of meeting the requirements of the Comptroller and Auditor-General.

Class VII.—Ministry of Labour.

Q 1063. 11. National Insurance Acts, 1911–1915. (National Health Insurance.) Your Committee are glad to be informed that greatly improved accuracy is found in the accounts of approved societies generally.

Q. 1078. 12. With regard to some of the conditions laid down for the conduct of the accounts of Associations, the Treasury, with some little difficulty, have agreed to relaxation of the necessity for daily signatures in the Vacant Books. Your Committee hope that steps will be taken to re-establish the normal rule as soon as possible.

Post Office.

Q. 1142. 13. A difference has arisen between the Treasury and the Post Office as to the rate of interest on which the actuarial calculations for the Pension Fund should be based. Your Committee have examined the memoranda (Appendices 8) submitted both by the Treasury and the Post Office, and are of opinion that the basis of 3 per cent. which has hitherto prevailed should be continued for the present.

NAVY APPROPRIATION ACCOUNT.

14. The Appropriation Account has been rendered in the same form as those for 1914–15, and 1915–16, but a fuller account has been confidentially submitted to your Committee. Other accounts are kept as in pre-war times, and will be available for publication as soon as the state of public affairs permits.

Net Deficit.

15. The expenditure has exceeded the estimate by £207,954,228 16s., while the sum realised by appropriations in aid has fallen short of the estimated amount by £1,905,979 0s. 7d., so that the net deficit charged against the Vote of Credit is £209,860,207 16s. 7d.

Vouchers, etc., not Forthcoming.

Q. 1181. 16. The Comptroller and Auditor-General reported that the delivery of Vouchers has not been maintained as satisfactorily as was anticipated, but while your Committee are inclined to think that the great difficulties under which the Admiralty are labouring, not only in the universal one of staff, but also in the scattered character of their accommodation in some twenty different buildings may rightly be regarded as the reason, they hope that every effort will continue to be made to prevent the delay.

New Form of Net Cost, etc., Contract.

Q. 1277 17. The Admiralty adopted a new form of Contract for Ship-building on the basis of net cost plus establishment charges (either on an agreed percentage or as ascertained by the Admiralty), together with a profit of 10 per cent. upon the estimated cost, and a bonus of 10 to 20 per cent. of the amount by which the actual cost proved less than the agreed estimated cost, which seemed to your Committee to be in principle a suitable form in the absence of competition. This form your Committee learn has lately been amended and brought into line with the Marine Shipping Contract. Your Committee understand that the principal changes in the new form of Contract are, that in view of the high cost of labour, fixed amounts not necessarily bearing any relation to the actual or estimated cost, are now included for establishment charges and profits. Your Committee

will watch the outcome of the new system with interest, as its more economical working will depend upon the successful negotiation upon the part of the Admiralty of the amounts fixed for establishment charges and profit.

Investigation of Contractors' Costs.

18. Your Committee enquired as to the progress that was being made in checking claims for Q. 1339 repairs and alterations carried out on the net cost system, and were informed that investigations were concluded in about 120 cases, and that further progress is being made from month to month. But the smallness of the available staff, and the difficulty of getting the necessary trained accountants is a bar to quicker progress. Your Committee hope that such efforts as are possible will be carefully maintained.

Royal Naval Cordite Factory.

19. The factory was designed originally to be not only a war establishment, but a permanent Q. 1451. factory, at first only for the production of cordite from components bought elsewhere, but subsequently for the subsidiary manufacture from raw materials of the component parts of which cordite is composed.

The original estimates were also based upon the cost of the factory itself, with the knowledge that variation would probably occur according to the nature of any site which should finally be determined as the most suitable. The estimate grew largely from time to time; but your Committee are informed that the result is a cheapening both of the production of the cordite, and a checking of the prices charged by outside manufacturers. They note that in this case, while the remuneration of the Superintending Engineers which was a percentage based, in the first instance, on the construction work, and which subsequently included also that of the mechanical engineering, was reduced at their own suggestion with the greatly increased total cost, but that it did not occur to the Admiralty to look far enough ahead to fix a maximum, which should not be exceeded, whatever the amount of money expended.

STAFF OF THE EXCHEQUER AND AUDIT DEPARTMENT.

20. The normal pre-war expenditure which came in course of audit in 1913-14, was £170,000,000 Q. 1698 while in the accounts now before the Committee it is £2,162,000,000. The staff of the Department before the war consisted of 215 trained men, and whereas the audited expenditure has increased more than ten-fold, the present trained staff is equivalent in numbers only to 208, together with 123 temporary clerks who are only capable of doing routine work and the simpler accounts. More trained men are needed to cope with the growing expenditure of the Army, Navy, Ministry of Munitions and Ministry of Pensions, not to mention other newly-created Government Departments. Your Committee hope that, in view of the extreme importance of the Department for national economy, no more trained men may be taken from it, and that every effort will be made to provide those now required.

MINISTRY OF MUNITIONS.

Form and Scope of Accounts.

21. The form of the Appropriation Account is the same as last year, though some of the sub- Q. 1796. heads have been altered in connection with the transfer of the Ministry of extra services; the most important of which are the provision of mechanical transport, of railway material, and of aeronautical supplies.

Outcome of the Account.

22. The estimate was merely a token vote, and the excess of expenditure is £502,430,380 13s. 1d., Q. 1802. which, added to a deficiency of £165,260 13s. 5d. on the amount of Appropriation in Aid, makes a total of £502,595,641 6s. 6d., which has been transferred to the Vote of Credit. The expenditure in the year ending March, 1916, was £222,000,000, while for the financial year recently completed it will be some £620,000,000, making in all £1,345,000,000. But against that it is reckoned that at March 31st, 1918, of fixed capital calculated with a heavy depreciation there was £40,000,000, Stocks at cost £240,000,000; Loans, Metals, &c., £70,000,000, or £350,000,000 together, while the Stocks held by the Army are reckoned at well over £100,000,000, so that more than one-third of the total expenditure is represented by existing assets, many of which, however, are essentially wasting in character.

It appears that supplies to the War Office and the Air Ministry are made without financial charge, whereas other Government Departments, such as the Admiralty and the Board of Agriculture, are charged for supplies furnished to them. It was represented that the Ministry would prefer to charge all Departments alike, a course which recommends itself to your Committee.

Treasury Control.

23. In October 1916, an Inter-Departmental Emergency Committee was established, composed Q. 1831. of representatives of the Treasury and of the Ministry, to deal with proposals for expenditure. It has now been decided that proposals involving capital expenditure of £50,000 or upwards, shall be submitted to the Treasury, while the Ministry now has authority to settle claims for compensation owing to cancellation of Contracts up to a limit of £1,000.

Scope of Audit.

Q. 1851. 24. It has only been possible for the Comptroller and Auditor-General to provide trained Officers for the audit of the Ministry's Accounts to a very small extent, compared with the mass of the transactions, and the percentage of test audit cannot, therefore, be a large one. The number of contracts with which the Ministry dealt in the year 1915-16 was 12,730; for 1916-17 was 27,882, and for 1917-18 it has risen to 62,882, while the turnover of the Ministry was about £200,000,000 per annum, the number of drafts in 1917-18 being 1,200,000. This emphasises the necessity of strengthening the staff of the Comptroller and Auditor-General to enable him in some degree to keep pace with the increase of the work.

Accounts of the Ministry: General.

Q. 1871 and 1884. 25. The Committee find that the problem presented to the Ministry by the practical breakdown of their accounting system under the strain of the absolutely abnormal conditions of the early period of its existence was of a dual character, involving (1) the creation of an efficient system of record and account for current transaction, and (2) the re-examination and review of past transactions.

With regard to the first part of the problem, the accounting for current business, various radical changes were introduced tentatively and gradually which have culminated from 1st April, 1918, in a complete new system of account, approved in outline by the Treasury. The Committee are assured that, while there will no doubt be individual cases of error in future, owing to the bulk and complexity of the transactions and to staff difficulties, a very great improvement may confidently be looked for, and they hope to be able to record at the next opportunity that it has in fact been realised.

Appendix Paper No. 12 contains an interesting summary of the steps taken to improve the important part of the Ministry operations concerned with the invoicing of issues.

26. The second part of the problem is that which has been most in evidence before your Committee this year. The cases commented upon by the Comptroller and Auditor-General in his Reports on the various accounts of the Ministry for 1916-17 afford an indication of the extent and nature of that problem; but, in view of the notice that has been attracted to the subject, it is desirable to point out the differentiation to which those comments are liable.

Some of the cases cited are questions of accounting, which may not in themselves necessarily involve loss to public funds, but which afford evidence of slackening in the accounting arrangements, and of weakness of financial control which are almost inevitably accompanied by extravagance and waste in administration.

On the other hand, there is a numerically smaller but intrinsically more important group of cases in which the mistakes and gaps in the accounts were of such a character that grave danger of loss of public funds was involved, and the existence of such cases demonstrated the necessity for a drastic review of the transactions of the Ministry from their inception.

27. In these cases the facts are admitted or are at present under detailed investigation, and it is unnecessary to comment on them individually. The Ministry have for a long time had the matter in hand, and in April, 1917, the Internal Audit Department was established to cope with the situation that had arisen by clearing up the relations with contractors. Further measures have now been decided upon to extend and complete the task of revision by focussing into proper accounts the essential information which is considered to be available either in various branches of the Ministry or with the individual contractors.

Q. 2108. Having regard to the enormous values involved, your Committee are particularly impressed with the necessity for the application of this further investigation to the accounting records of material issued to contractors, in regard to which the progress made by the Ministry towards clearing up the position is less satisfactory than in some other directions.

In the meantime the Committee desire to record their appreciation of the efforts that have been and are being made to reduce chaos into order, and to pick up and set straight the mistakes which have been made.

Financial Relations with Contractors.

Q. 2159 and 2197. 28. It appeared that in respect of loans to contractors due care had not been taken; that in some cases interest had not been charged, and in others had not been claimed until long after it was due. It is of importance that claims of this nature should be preferred as they fall due, irrespective of financial negotiations which may be in progress, and your Committee were informed that matters had now improved, and that claims for interest are, as a rule, sent in within a week of the due date.

Provisional Prices.

Q. 2202. 29. It was reported to your Committee that the system of paying for supplies at provisional rates to be adjusted subsequently by negotiation was necessarily continued, particularly with regard to contracts for guns.

Capital Advances in Relation to Excess Profits.

Q. 2218. 30. On this matter two memoranda were prepared by the Ministry, and are printed as Appendix No. 14. In certain cases there had been a danger that firms might receive the benefit of the writing-off of excess profits, both from the Ministry and the Inland Revenue, and the

Q. 2222. rules as to depreciation differed between the two Departments; but it was agreed by the Chancellor of the Exchequer that the writing down for depreciation allowed for the purposes of the Munitions Levy would be accepted by the Inland Revenue in calculating the amount of Excess Profits duty which might be leviable. The most recent practice is, however, for the Ministry to contribute a percentage of the capital expenditure involved, to be repaid through Excess Profits, provided the Inland Revenue allowed such a percentage to be written off. This removes any suggestion of interception of revenue, and regards the contribution of the Ministry as direct and final settlement. It also ensures that there is no remission of taxation by the Ministry, but that each case is dealt with by the proper Authority—namely, the Board of Inland Revenue.

Capital Expenditure on National Factories.

31. It has already been stated in the House that the cost of the factories has been about £66,000,000. The Treasury had sanctioned lump sums to be spent on the erection of factories as units or classes upon estimates furnished by the Ministry. In many cases the original estimated cost was largely increased; in some cases to three or four times the original amount, whilst the total sum sanctioned by the Treasury for certain classes was also exceeded. This was done without prior Treasury sanction, although covering authority was obtained after the expenditure had been incurred. The Ministry had not thought it necessary to consult the Treasury upon individual variations; but, as already stated, the practice has now been altered, and no estimate can be increased without Treasury sanction when the cost of the alteration amounts to £50,000. Q. 2235.

Audit of Capital Expenditure and the Inventories of Ministry's Property.

32. There has been delay in the departmental audit of capital expenditure on assisted contracts and in the compilation of inventories of plant and machinery, which are or may become the property of the Ministry. The delay has been largely owing to lack of efficient staff, but the Committee trust that both these important tasks will be pressed forward. Q. 2267.

Financial Control.

33. Various cases were under notice in which, under pressure of urgency of supply, etc., expenditure was incurred without adequate consideration, or on a scale that might have been materially reduced with a more effective system of financial control. The Committee are glad to be assured that conditions have been materially improved in this respect. Q. 2274, 2422, 2432, 2444.

Co-ordination of Contracts.

34. The Committee learn with satisfaction that effective steps have been taken to secure co-ordination in regard to contracts, not only as between various branches of the Ministry, but also as between Government Departments requiring similar supplies, and they hope that the difficulties which have apparently been experienced by the Admiralty in arriving at complete agreement on this matter will be successfully removed. Q. 2288. Q. 2473.

Issues to Allied Governments.

35. The weaknesses which developed in the accounts of the Ministry have resulted in delays and difficulty in regard to claims in respect of the large sums due from Allied Governments for purchases made on their behalf, and for issues from stock. Further complications as regards prices to be charged arose from the complexity of the financial conditions involved in the Government control over manufacturing and commercial affairs during the war. The situation is being carefully kept under review by the Comptroller and Auditor-General.

Rectification of Defective Supplies and Stock of Defective Shell.

36. During the year 1916 capital expenditure was incurred in connection with the rectification of warlike stores from overseas, whilst considerable loss was incurred owing to rejection of unserviceable material. It was not found possible in the early days of the war to obtain the same standard of inspection in America as obtained in the United Kingdom; and upon the more rigid examination in this country a certain percentage of supplies which had passed inspection in America were rejected. Your Committee are informed that the cost of the rectification and replacement has only been ·4 of 1 per cent., and that the rectified supplies are gradually being used. A memorandum on the subject of re-inspection of American supplies is contained in Appendix No. 15. With regard to the rectification and utilization of defective and obsolete stocks in this country the Committee understand that much attention is being given to this matter, and they hope that economy may be effected by this means. Q. 2455. Q. 2467.

Staff of Ministry.

37. The Committee of Public Accounts of last year expressed the opinion that Treasury control for appointment of staff and salaries had been somewhat unduly relaxed. It is stated that the procedure has now been tightened, and it was given in explanation of some of the unusually large rises in salaries that a good many persons came into the office believing the war would only last a short time, and therefore prepared to make considerable monetary sacrifices, which in subsequent years became impossible, and they were obliged, therefore, to ask for a salary more commensurate to the work they did, and even then often not on a commercial scale. Q. 2470.

Aeronautical Supplies.

Q. 2472. 38. From 1st March, 1917, the Ministry became responsible for the supply of aeroplanes, engines, &c., although during that month the accounting machinery and payment remained in the hands of the Admiralty and War Office. The contracts transferred to the Ministry by the Admiralty and War Office showed considerable divergencies in method between the two departments, particularly in regard to firms new to the work, but the Ministry have now cleared the position a good deal.

Q. 2483. 39. Your Committee are informed that the Ministry, while they are placing contracts on the fixed price system also employ that of cost, plus percentage. In this case they claim that a careful watch is kept over the amounts incurred, and that the basis of the contract is altered to the fixed price system as soon as possible.

Q. 2496. 40. The Admiralty in 1915 entered into contracts with an American Company for aeronautical supplies involving heavy payments, but a large amount of the expenditure was only brought to account by the Ministry in November, 1917. Treasury authority had been obtained for part of the commitments, but the Admiralty did not ask for sanction before incurring important liabilities beyond the original programme.

The history of the contracts in question is understood to be still under inquiry, but the Committee are of opinion that the Comptroller and Auditor General is right in thinking that the approval of the Treasury should have been obtained before the settlement was finally made with the contractors involving the large sums of

(a) £1,006,433 14s. 2d. in respect of supplies up to 31st July, 1916.

(b) £1,088,877 4s. 7d. for the value of work done and loss of profit on order afterwards cancelled.

(c) £88,750 4s. 6d. in respect of suspension of work pending settlement.

Housing Schemes.

Q. 2540 and 2549. 41. From the figures available it appears that the total capital expenditure on the various housing schemes to 31st October, 1917 was £1,150,000, the buildings in some cases being of a temporary character. The occupation of cottages was fairly complete and regular except in one instance, but that is not the case with the hostels. They were the quickest to put up and the cheapest, and in view of the crowded conditions of the time, it was considered essential to provide accommodation without delay, but it was found that they were not popular because they involved a certain amount of restriction, and they are, therefore, now generally discontinued. As the buildings have not been utilised to their full capacity the prices charged for accommodation, which were originally intended to cover expenditure and provide interest on the sinking fund and capital, have been found to be insufficient for this purpose, and, taking the schemes as a whole, a rough calculation indicates that to the 31st October, 1917 the expenditure, apart from capital, exceeded the receipts by £8,000, and only in a few instances (generally where the cottage system prevails) did the receipts exceed the expenditure. The Committee trust that every endeavour will be made to secure the working of these housing schemes on the most economical basis consistent with efficiency, and they are of opinion that greater co-ordination of control might be attended with beneficial results.

Canteens.

Q. 2566 42. The Canteens attached to National Factories were started in the early part of 1916 and the general responsibility for their workings was undertaken by the Central Liquor Control Board, the Ministry defraying the cost of building, lighting, heating and equipment, it being the intention that apart from these capital charges the Canteens should be self-supporting The principal deficiency in the accounts of the canteens arise in the first year's working; partly because the Control Board desired to make the canteens popular even at the risk of financial loss, whilst the Ministry desired to provide employees with food at as low a price as would be consistent with financial solvency, and at the same time not to deter private firms from adopting similar schemes. A Finance Committee was appointed in March, 1917, at which the Ministry and the Control Board were represented and which had effected considerable improvements in the balance sheets of the Canteens. Your Committee are of opinion that the aim of the Ministry was a right one.

Q. 2582. It was noticed in one factory that the employees contributed only partially to the cost of the meals, the difference (amounting to 10s. a week per head) being one of the expenses of the factory; while in another case the staff receive meals free.

The position of the Ministry in relation to this matter and to the other points raised by the Comptroller and Auditor-General is set out in the correspondence printed in Appendix No. 21. The Committee regret that the Finance Department were not consulted in regard to the question of payment of part of the cost of meals at certain factories, and they are glad to observe that improvement has taken place in the financial control over the canteens, and they hope that the question of central purchasing of supplies by the Ministry or some large quasi-official organisation like the Army and Navy Canteen Board will continue to be kept in view.

Motor Transport.

Q. 2595. 43. The Comptroller and Auditor-General reports that the centralization of the control of mechanical transport has resulted in considerable economies. Other improvements in financial control have since been made as a result of his investigations, but full co-ordination is desired between the Ministry and the War Office. Your Committee hope that this will be effected as soon as possible.

Expenditure by the Imperial Munitions Board.

44. Your Committee are informed that the transactions of the Board come under the general arrangements for Treasury Control. Q. 2605.

Unsatisfactory Store Accounts.

45. The system of Central Store accounting instituted as from 1st January, 1917, did not realise expectations, and the Committee are informed that recently a new system has been adopted under which the depôt records will become the official accounts and will be subjected to departmental local examination. They hope that strict watch will be kept over the matter, and that improved results may follow. Q. 2608.

Stocktaking.

46. Stocktaking was resumed in 1917, and your Committee are informed that stock has been taken at 114 out of 142 stores, and that the net deficiences are working out at a small amount. Q. 2614.

MINISTRY OF MUNITIONS: ORDNANCE FACTORIES APPROPRIATION ACCOUNT.

1.—Form and Outcome of the Account.

47. The account is in the same form as that which was presented last year and shews a total deficit of £2,328,123 14s. 10d., the expenditure having exceeded the gross estimate by £1,008,268 15s. 6d., while there was a deficiency of £1,319,863 19s. 4d. in the estimated amount of Appropriation in Aid.

2.—Delays, etc., in Accounting at the Ordnance Factories.

48. The Comptroller and Auditor-General reports that serious delays had occurred in recording large transactions which should have been included in the account for 1915–16. It appeared that the earlier arrangements left much to be desired, but that material improvements were resulting from the steps which are now being taken. Among these transactions is a charge of £140,204 for timber supplied by Office of Works, the delay in this case pointing to a failure between the departments to arrive at a reconciliation, and your Committee desire to emphasize the necessity of pressing forward the adjustment of the accounts. Q. 2619 and 2639

MINISTRY OF MUNITIONS; ORDNANCE FACTORIES ANNUAL ACCOUNTS.

Increased Output of Factories.

49. A comparison of the principal items of the Balance Sheet since the beginning of the war shows that they have increased, as from 1913–14, as follows:—

Book value of fixed capital from £2,287,895 to £4,696,964.

Book value of stores in hand from £860,908 to £5,330,983, and Production from £3,821,052 to £32,666,528.

Stocktaking.

50. Your Committee is informed that it was not possible to resume stocktaking until 1917–18, and that no results have yet been reported.

Store Accounts.

51. The delayed adjustment of accounts between the Ordnance Factories and Ministry of Munitions Votes, to which reference is made in paragraph 48, was caused chiefly by the failure of the Ministry to furnish priced invoices for materials supplied to the factories. From the same cause the Store Ledgers, which deal concurrently both with quantities and values, were unsatisfactory, many receipt entries being hung up pending receipt of the priced invoices. Q. 2678 and 2681.

Your Committee hope that effective and early steps will be taken to place the Store Accounting on a satisfactory basis.

MINISTRY OF MUNITIONS; NATIONAL AND ROYAL AIRCRAFT FACTORIES.

52. Your Committee approve the suggestion of the Comptroller and Auditor-General that these accounts should continue to be presented separately, but it is important for them to be rendered in time to be dealt with in connection with the Appropriation Account of the Ministry.

Departmental Audit.

53. The Departmental Audit has been continued by Officers under the direction of the Director of Factory Accounting or by private local firms of chartered accountants. These Accounts have been properly drawn up and certified. The conditions of the records on which these accounts are based is such that the Committee approve of the course that was taken to make no attempt to rectify them, but start again as from 1st April this year. Your Committee are informed there is no question of any possible loss of cash or of interest. Q. 2712.

Breakdown of Headquarters Records.

Q. 2714. 54. There was a considerable breakdown of headquarters records in materials despatched to and from the factories, and your Committee are informed that the Treasury have approved of the proposal of the Ministry to accept the balance of stock shown on the factory records on the 1st April, 1918, as the Head Office Record. The factory cost accounts appear to have served their double purpose of a check on the efficiency of the factory, and of comparison with contractors' prices, and taking into consideration the capital expenditure, depreciation and interest on capital, it has been possible to manufacture supplies in the national factories cheaper and at more advantageous terms than they can be obtained from contractors. In the case of the explosive factories there is no doubt they have paid for themselves.

Cost Accounting.

55. The reports furnished to the Comptroller and Auditor-General of many of the factories show that it was a considerable time before reliable costing figures could be obtained, but your Committee are informed that considerable improvements have now taken place and they hope that care will be taken to obtain more reliable results in the future.

Government Rolling Mill.

Q. 2742. 56. Up to the 31st March, 1917, capital expenditure to the amount of £755,000 had been incurred on a large rolling mill against the original estimate of £630,000, but your Committee are informed that many of the necessary items were omitted from the original provision, and that additional services proved to be necessary, so that the estimate of capital expenditure is now £1,200,000. Your Committee note with regret that the Department did not go to the Treasury for sanction, but the new arrangement between the Ministry and the Treasury provides that for every alteration of estimate exceeding £50,000, the sanction of the Treasury must be first received.

ARMY APPROPRIATION ACCOUNT.

Form of Account.

Q. 2813. 57. The form of the Account has been varied this year at the suggestion of the War Office, by the inclusion of the corresponding figures for 1915–16, which is an improvement, as it affords a ready means of comparison with the expenditure of the previous year.

Excess Vote.

58. The net deficit charged against the Vote of Credit amounts to £587,781,557 3s. 0d.—after taking into account the Appropriations in Aid of £2,065,391 6s. 8d. realised in excess of the Estimate. For the appropriation of this amount, Parliamentary Authority will be required by means of an Excess Vote, to which your Committee agree.

Contract Procedure.

Q. 2816. 59. Your Committee are informed that an important change in the organisation of the War Office has been made, in the appointment of the Surveyor-General of Supply as an additional member of the Army Council to control the commercial side of supplying the Army, which resulted in considerable alterations in organisation of the Contract work. There is now a Director of Raw Materials and a Director of Army Contracts. Your Committee are informed that the amount of work fully justified the appointment of the second Director.

Contracts in the Egyptian Command.

60. In Paragraph 39 of the Report of the Committee of Public Accounts of last year notice was taken of the neglect on the part of the Army Authorities in Egypt to take proper advantage of the local experience of the Egyptian Government, and the Committee regarded the subsequent formation of a Local Resources Board to supervise Army Contracts in Egypt as a good method of avoiding the repetition of unsatisfactory features in local contracts.

Your Committee regret to learn from evidence given before them this year that the Military Authorities in Egypt are using the Local Resources Board only as and when they think fit, and your Committee trust that steps will be taken at once to insure that the fullest advantage is taken of the knowledge and experience of the members of that Board.

Financial Control in Expeditionary Forces.

Q. 2854. 61. A misunderstanding arose upon the construction of a paragraph in the Field Service regulations, which was held to give the General Officers Commanding in the Field the power to ignore or overrule any representations made by the representatives of the Accounting Officer of the War Office. Your Committee are glad to be informed that the contention of the local Military Authorities in question has now been withdrawn.

Simplification of Accounting in Units Desirable.

Q. 2861 and 2871. 62. A Royal Warrant was issued on 3rd December, 1917, which, *inter alia*, transferred to Army Funds the whole charge for compulsory allotment hitherto in force in respect of Separation Allowance. Your Committee enquired as to whether the Accounting in the Units would be thereby simplified, and they were informed that this would be the case as regards allotments, but in other

respects it made accounting more difficult. It was also brought to the notice of your Committee that the forms of Account were not always easily understood. They are aware that in such a large organisation as the Army it is not possible to do without more forms than are needed in smaller concerns, but they trust that care will be taken both to minimise the number of the forms, and also to make them as easily understood as possible.

Delegation of Army Council Powers to write off in Commands.

63. During the year, power was given to Regimental Paymasters to deal with debtor balances Q. 2864. up to £1, and local auditors were employed to write off over issues of Separation Allowances not exceeding £30, provided no fraud was suspected, or regimental negligence involved. Your Committee enquired whether it was found that extravagance had resulted from the practice, and though they were glad to be informed that the power was not abused, they trust that the Comptroller and Auditor-General will watch carefully the exercise of the newly delegated powers.

Territorial Force Association.

64. An examination of the annual grant showed that, in many cases, Associations had a Q. 2893. balance in hand on the year's working, and the Comptroller and Auditor-General enquired whether the Associations were not merely agents for the War Office, and their accumulated balances, therefore, available for general use. The Army Council answered that they were not prepared to take any steps that would reduce the Associations to the position of mere agents, whose accounts would have to be audited, and whose administration would have to be correspondingly controlled by the War Office.

Army Canteens.

65. The accounts of the Navy and Army Canteen Board, which was established as the Army Q. 2946. Canteen Committee to control the administration of Army Canteens and Regimental Institutes, are subject to audit by an outside firm, with Treasury right to examine the accounts at their discretion. The Treasury has now advanced the sum of £3,000,000 from the Vote of Credit, as a working capital, to be repaid on the 31st December next. Your Committee are informed that means have been taken to secure that, as far as possible, there shall be no loss to Public Funds.

Canteen Profits on Cash Allowance for Rations.

66. In reference to the evidence before the Public Accounts Committee of last year, with Q. 3023. regard to the profits arising from purchases made out of the 5½d. cash allowance for rations, the Committee are informed that the sum of £40,000 was received from the Army Canteen Committee in respect of profits for the March quarter, 1917. Your Committee enquired if further profits would be treated as an appropriation in aid of Army Votes, but were informed that the Army Council are of opinion that all the profit belongs to the soldier—and therefore ask for authority to make no further payments from the Canteen Board to the Exchequer. Your Committee are informed that this matter is still under discussion between the Departments.

Expenditure on Inland Water Transport Works.

67. In the early part of 1916, Treasury sanction was given for Schemes initiated by the Q. 3110. Inland Water Transport Department at an estimated cost of £109,000. Development of such facilities was a matter of great importance and urgency, and the Schemes were greatly extended and rapidly put in hand without the cognizance of the Finance Branch of the War Office or of the Treasury. It was some months before the former appreciated the situation, but in August, 1917, a revised estimate of £931,000, purporting to cover all the Schemes in hand, was submitted to the Treasury, and approved by them, with a protest as to the difficulty in which such action placed them in discharging their responsibilities to Parliament. In addition to this amount, outstanding liabilities of £130,000 which had been omitted came to light. Further commitments and increase of estimates involved an additional £350,000, and these figures do not include the cost of Military labour employed, which at the rate of eightpence per hour, per man, appears to be upwards of £500,000. Owing to the urgency of the work, Cabinet sanction was obtained for various increases of estimates, and your Committee regret that this was thought to render the Departmental sanction of the Treasury unnecessary. Moreover, the fact that Military labour was employed, and large portions of the material taken out of Store, points to serious omissions in the scheme of financial control in the War Office. Your Committee are glad to understand that measures are being taken to avoid such a serious gap in the system of Financial Control in the War Office.

Vote 8. Ordnance Department Establishments and General Stores.

Overcharge to Subhead D. Equipmemt Stores.

68. The Accounting Officer brought to notice that two book-keeping errors, as a result of which Q. 3161 and there was an overcharge of £490,442 17s. 8d. to Subhead D. Equipment Stores 1916–17, had only 3184. recently come to light in his Department.

The accounts as between the War Office and the contractor were correctly kept, and there was no risk of the latter being credited with monies in excess of what was due.

The failure to detect the overcharge to the Vote in time to rectify the account for 1916–17 was due to the fact that the usual agreement of records between the Branch operating the contracts and the Ledger Branch had not been carried out before the Appropriation Account was closed.

Steps have been taken to prevent the recurrence of similar errors, and your Committee are of opinion that it will suffice, as proposed, to adjust the overcharge in the account for 1917–18 and append a note explanatory of the circumstances.

VOTE OF CREDIT.

Outcome of the Account.

69. The total expenditure amounted to £1,962,982,432 5s. 3d. as compared with an estimate of £2,010,000,000; and of this amount £649,375,487 19s. 10d. was outside the ambit of any Parliamentary estimate other than the Vote of Credit, and accounts have been duly furnished for all the charges. The net receipts carried forward to 1917–18 amount to £11,539,650 2s. 3d., which is an addition to £1,521,185 9s. 8d. shown in the accounts of 1914–15 and £13,722,560 10s. 1d. in 1915–16. On services which have been finally closed £11,478,227 have been paid to the Exchequer.

Raw Materials Controlled by the Army Council.

Q. 3230. 70. The form of accounts is made up in accordance with arrangements decided by the Treasury and the War Office, and the cash accounts have been examined by the Comptroller and Auditor-General in the ordinary course. A detailed account of the process of controlling raw materials was furnished your Committee, and appeared to them to give a sufficient grip of the transactions. They are informed that steps which are taken will result in greater accuracy in the cost at which the various stocks are valued.

Q. 3241. At first no provision was included in the trading accounts for Interest on Capital advanced from public funds. Your Committee are glad to know that the omission is now rectified.

Sugar Supplies.

Q. 3501 and 3521. 71. The accounts of the Royal Commission on Sugar Supply dealing with the purchases, sales and stocks, have been examined by the Treasury and the results communicated to the Comptroller and Auditor-General. Your Committee enquired whether annual accounts had been prepared showing the full results, and are informed that they have been furnished to the Treasury up to March 31st, 1917. The result of the total operations, so far as completed contracts are concerned, seem to show a slight profit up to that date. Your Committee are informed that though the accounts of the Sugar Commission, like those of all Royal Commissions, are administered by the Treasury, yet they are now passed direct to the Comptroller and Auditor-General for his examination, a course of which your Committee approve.

Payments under Agreement with American Packers respecting Goods Seized.

Q. 3542. 72. Payments were made to certain American Firms for goods ships to Scandinavia which were seized as suspected prize. It was explained to your Committee that there were legal difficulties through which it was impossible to make payments to the American Firms from the Prize Fund, and they approve the action of the Treasury in making the necessary payments from the Vote of Credit pending the introduction of legislation to confer power to recover from Prize Funds. And the same condition applies to the Expenses of the Prize Claims Committee connected with the use of ships condemned or detained as Prizes of War.

Central Control Board.

73. Your Committee are informed that it will soon be possible to publish trading accounts of the Central Control Board, but that the disclosure of the figures at present might hamper negotiations which are in progress, and it was not stated to your Committee that these were numerous. As three years have now passed since the establishment of the Board, your Committee are of opinion that a Balance Sheet such as would be presented by any public company should be prepared and published without further delay.

Expenditure by the Ministry of Shipping.

3607. 74. The primary object of this service was the financing and payment of transport services with the allied governments. Your Committee enquired as to whether the accounts against the various Governments were allowed to run any considerable time, but were informed the arrears have been overtaken and on 31st March were practically non-existent.

Purchase and Sale of Wheat.

, 3718. 75. Your Committee are informed that the Committee on National Expenditure is dealing fully with the policy and outcome of the transactions of the Wheat Committee. The Comptroller and Auditor-General reports that the accounts were at first badly kept, and that in some cases it is impossible, owing to the incidents of war, to obtain the necessary vouchers. The accounting has now been taken in hand and a balance sheet promised. Your Committee consider it ought not to be long delayed, and should be, as far as possible, on commercial lines.

MINISTRY OF PENSIONS.

Establishment, Powers and Duties.

76. The Ministry was established by 6 & 7 Geo. V., cap. 65, which transferred to the Minister the powers and duties of the Admiralty and War Office relating to the grant of pensions, other

than service pensions, to persons who have served as officers or men and to their dependants. The powers and duties of the Commissioners of Chelsea Hospital, except those in respect of in-pensions, were also transferred.

The date of transfer was fixed by Order in Council at 15th February, 1917, and regulations laying down the rates of pensions and the conditions under which they may be granted were subsequently embodied in Royal Warrants and Orders in Council for the Army and Navy respectively, with application from 1st April, 1917, and with restriction to claims arising out of the present war.

Interpretation of Warrant Governing Awards of Pension.

77. The Royal Warrant provides that a pension shall be granted to a soldier discharged as medically unfit for further service, such unfitness being certified as either attributable to or aggravated by military service in consequence of the present war and not being due to the serious negligence or misconduct of the discharged man.

The Accounting Officer of the Ministry and the Comptroller and Auditor-General have drawn attention to what they regard as an increasing tendency on the part of the Ministry of Pensions to interpret the terms of the Royal Warrant in a strained and unnatural sense to an extent which involves improper expenditure of public money.

In response to a request by your Committee typical cases were put before them, in some of which the Minister had overruled the protest of the Accounting Officer to the effect that the awards were irregular and required Treasury sanction. **Appendices xvi. and xvii.**

In certain cases also the Comptroller and Auditor-General, endorsing the opinion of the Accounting Officer, referred the awards to the Treasury, who regarded them as not covered by the terms of the Warrant.

Your Committee also took evidence from the Parliamentary Secretary to the Ministry who explained the policy of the Minister, and claimed that he must have a very wide discretion as interpreter of the Warrant.

Your Committee have carefully considered the facts submitted to them. They are clearly of opinion that some of the awards were *ultra vires*. They trust, however, that the modifications in the terms of the general instructions, which have been agreed to by the Treasury, will tend to regularise the procedure for the future. **App. xvi., pp. 5-9.**

As regards the powers of the Minister of Pensions in relation to the interpretation of the Warrant, they must emphatically assert that his powers in no way differ from those of the Army Council in the interpretation of the Royal Warrant for Pay, etc. They endorse the opinion of the Committees of Public Accounts in 1884, 1889 and 1898, that so far as practicable any action taken under a Royal Warrant should be in accordance with the simple and ordinary meaning of its language. Wherever a discretionary interpretation becomes necessary, that interpretation should not be opposed to but in harmony with the natural meaning, intention and purpose of the Warrant; and if in special cases it appears to be necessary to deviate from the plain meaning of a Warrant the concurrence of the Treasury should be obtained. **Treasury Letter of 4th May, 1918. App. xvi., p. 7.**

Your Committee regard it as of the utmost importance in the interest of the tax payer that the very heavy expenditure on war pensions should be administered under all proper and necessary safeguards.

PROCEEDINGS OF THE COMMITTEE.

Tuesday, 12*th March*, 1918.

MEMBERS PRESENT:

Mr. Baldwin.	Sir Charles Henry.
Captain Blair.	Mr. Higham.
Sir Hildred Carlile.	Mr. Jowett.
Sir Henry Craik.	Sir Robert Williams.
Mr. Haslam	

Sir ROBERT WILLIAMS was called to the Chair.

The Civil Service Appropriation Accounts were considered.

The Housing Act, 1914, and Public Offices Sites, etc., Accounts were considered.

Sir *Sydney Olivier*, K.C.M.G., Mr. *Roland Wilkins*, C.B., Sir *Lionel Earle*, K.C.B., C.M.G., Mr. *J. A. W. Buchanan*, Mr. *A. Barnes*, I.S.O., Mr. *H. A. Ferguson-Davie*, and Mr. *M. Delevingne*, C.B., were examined.

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

Thursday, 14*th March*, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Sir Charles Henry.
Captain Blair.	Mr. Higham.
Sir Hildred Carlile.	Mr. Leif Jones.
Sir Henry Craik.	Mr. M'Kinnon Wood.
Mr. Haslam.	

The Civil Service Appropriation Accounts were further considered.

The Irish Land Purchase Fund Account, Local Loans Fund Account, and Woods, Forests, and Land Revenues Accounts were considered.

Sir *Sydney Olivier*, K.C.M.G., Mr. *Roland Wilkins*, C.B., Sir *Walter Jerred*, K.C.B., Mr. *J. A. C. Tilley*, C.B., Mr. *H. Lambert*, C.B., Mr. *A. E. Stephenson*, C.M.G., Mr. *J. G. Willis*, C.B., Sir *Daniel Hall*, K.C.B., Mr. *F. L. C. Floud*, Sir *William Turpin*, K.C.B., Mr. *H. P. Morris*, Dr. *Marriott Cooke*, Mr. *J. W. Cawston*, C.B., Sir *Bernard Mallet*, K.C.B., Sir *F. Atterbury*, K.C.B., Mr. *C. E. Howlett*, I.S.O., and Mr. *Morton Evans*, were examined.

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

Tuesday, 19*th March*, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Sir Charles Henry.
Captain Blair.	Mr. Higham.
Sir Hildred Carlile.	Mr. Leif Jones.
Sir Henry Craik.	Mr. Jowett.
Mr. Haslam.	Mr. M'Kinnon Wood.

The Civil Service Appropriation Accounts were further considered.

Sir *Sydney Olivier*, K.C.M.G., C.B., Mr. *Roland Wilkins*, C.B., Sir *James M. Dodds*, K.C.B., Mr. *C. H. Hunt*, M.B.E., Mr. *J. M. Paulton*, Sir *Charles Stewart*, K.B.E., Mr. *E. Brine*, Sir *John Struthers*, K.C.B., Mr. *C. L. Davies*, C.B.E., Sir *Frederick Clarke*, and Mr. *B. P. Moore*, were examined.

[Adjourned till Thursday, 11th April, at Two o'clock.

Thursday, 11*th April*, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Sir Charles Henry.
Captain Blair.	Mr. Higham.
Sir Hildred Carlile.	Colonel Sir H. Jessel.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Haslam.	

The Civil Service and Revenue Departments Appropriation Accounts were further considered.

Sir *Sydney Olivier*, K.C.M.G., C.B., Mr. *Roland Wilkins*, C.B., Sir *Robert P. Wright*, Mr. *J. Handford*, Mr. *H. W. Orange*, C.I.E., Mr. *H. N. Bunbury*, C.B., Mr. *L. G. Brock*, Sir *David J. Shackleton*, K.C.B., Mr. *D. H. Boggis Rolfe*, and Sir *Charles A. King*, C.B., were examined.

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

Thursday, 18*th April*, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Mr. Haslam.
Captain Blair.	Sir Herbert Jessel.
Sir Hildred Carlile.	Mr. Leif Jones.
Sir Henry Craik.	Mr. M'Kinnon Wood.

The Civil Service and Revenue Departments Accounts were further considered.

The Navy Appropriation Account was considered.

Sir *Sydney Olivier*, K.C.M.G., C.B., Mr. *Roland Wilkins*, C.B., Mr. *G. L. Barstow*, C.B., Sir *Alfred Eyles*, K.C.B., Sir *Harry Livesey*, Mr. *A. W. Smallwood*, Mr. *A. F. Whinney*, and Mr. *G. B. Cobb* were examined.

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

Thursday, 25*th April*, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Sir Charles Henry.
Captain Blair.	Mr. Higham.
Sir Hildred Carlile.	Mr. Leif Jones.
Sir Henry Craik.	Mr. Jowett.
Mr. Haslam.	Mr. M'Kinnon Wood.

The Navy Appropriation Account was further considered.

Sir *Sydney Olivier*, K.C.M.G., C.B., Mr. *G. L. Barstow*, C.B., Sir *Alfred Eyles*, K.C.B., Mr. *T. Sims*, C.B., Colonel Sir *Frederic L. Nathan*, Mr. *G. H. Ashdown*, and *F. Ward* were examined.

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

Thursday, 2*nd May*, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Mr. Higham.
Captain Blair.	Colonel Sir H. Jessel
Sir Henry Craik.	Mr. Leif Jones.
Mr. Haslam.	Mr. Jowett.
Sir Charles Henry.	Mr. M'Kinnon Wood.

The Civil Service Appropriation Accounts were further considered.

The Consolidated Fund, Treasury Chest Fund, Civil Contingencies Fund, Development Fund, and Greenwich Hospital Accounts were considered.

Sir *Henry Gibson*, K.C.B., Mr. *Roland Wilkins*, C.B., Sir *Malcolm Ramsay*, K.C.B., Mr. *C. H. R. Stansfield*, and Mr. *G. W. Chrystal* were examined.

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

Thursday, 9th May, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Arnold.	Mr. Higham.
Captain Blair.	Colonel Sir Herbert Jessel.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Haslam.	Mr. M'Kinnon Wood.
Sir Charles Henry.	

The Ministry of Munitions Appropriation Account was considered.

Sir *Henry J. Gibson*, K.C.B., Mr. *G. L. Barstow*, C.B., Mr. *S. Dannreuther*, C.B., Mr. *G. F. Garnsey*, and Mr. *A. Watson* were examined.

[Adjourned to Thursday, 30th May, at Two o'clock.

Thursday, 30th May, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin	Col. Sir Herbert Jessel.
Sir Henry Craik.	Mr. Leif Jones.
Sir Charles Henry.	Mr. Jowett.
Mr. Higham.	Mr. M'Kinnon Wood.

The Ministry of Munitions Appropriation Account was further considered.

Sir *Henry J. Gibson*, K.C.B., Mr. *G. L. Barstow*, C.B., Mr. *S. Dannreuther*, C.B., Mr. *G. F. Garnsey*, and Mr. *A. Watson* were examined.

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

Tuesday, 4th June, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Arnold.	Mr. Leif Jones.
Sir Hildred Carlile.	Mr. Jowett.
Sir Henry Craik.	Mr. M'Kinnon Wood.
Sir Charles Henry.	

The Ministry of Munitions Appropriation Account was further considered.

Sir *Henry J. Gibson*, K.C.B., Mr. *G. L. Barstow*, C.B., Mr. *S. Dannreuther*, C.B., Mr. *G. F. Garnsey*, and Mr. *A. Watson* were examined.

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

Thursday, 6th June, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Arnold.	Sir Herbert Jessel.
Sir Hildred Carlile.	Mr. Leif Jones.
Sir Henry Craik.	Mr. M'Kinnon Wood.
Sir Charles Henry.	

The Ministry of Munitions Appropriation Account was further considered.

Sir *H. J. Gibson*, K.C.B., Mr. *G. L. Barstow*, C.B., Sir *John Mann*, K.B.E., Mr. *S. Dannreuther*, C.B., Mr. *G. F. Garnsey*, and Mr. *A. Watson* were examined.

[Adjourned till Tuesday next at Two o'clock.

Tuesday, 11th June, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Sir Henry Craik.	Mr. Leif Jones.
Sir Charles Henry.	Mr. Jowett.
Mr. Higham.	Mr. M'Kinnon Wood.

The Ministry of Munitions (Ordnance Factories) Appropriation Account, Ministry of Munitions Ordnance Factories Annual Accounts, Ministry of Munitions National Factories and Aircraft Factory Account, and Ministry of Pensions Appropriation Account were considered.

Sir *H. Gibson*, K.C.B., Mr. *G. L. Barstow*, C.B., Mr. *S. Dannreuther*, C.B., Sir *G. Garnsey*, K.B.E., and Mr. *J. A. Flynn*, C.B., were examined.

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

Thursday, 13th June, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Sir Hildred Carlile.	Mr. Higham.
Sir Henry Craik.	Col. Sir Herbert Jessel.
Mr. Lewis Haslam.	Mr. Leif Jones.
Sir Charles Henry.	Mr. M'Kinnon Wood.

The Army Appropriation Account was considered.

Sir *H. Gibson*, K.C.B., Mr. *G. L. Barstow*, C.B., and Sir *Charles Harris*, K.C.B., were examined.

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

Tuesday, 18th June, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Captain Blair.	Sir Charles Henry.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Lewis Haslam.	

The Army Appropriation and Store Accounts were further considered.

The Ministry of Munitions (National and Royal Aircraft Factories) Annual Accounts; the Army Appropriation Account; the Army Clothing Factory Annual Accounts, and the Chelsea Hospital Appropriation Account were considered.

Sir *Henry Gibson*, K.C.B., Mr. *G. L. Barstow*, C.B., Sir *Gilbert Garnsey*, K.B.E., and Sir *Charles Harris*, K.C.B., were examined.

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

Thursday, 20th June, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Sir Charles Henry.
Captain Blair.	Mr. Leif Jones.
Sir Henry Craik.	Mr. M'Kinnon Wood.
Mr. Lewis Haslam.	

The Vote of Credit Appropriation Account was considered.

Sir *H. J. Gibson*, K.C.B., Mr. *Roland Wilkins*, C.B., Sir *Charles Harris*, K.C.B., Mr. *A. E. Watson*, Mr. *A. Barnes*, I.S.O., Sir *Walter Jerred*, K.C.B., Sir *Daniel Hall*, K.C.B., Sir *Lionel Earle*, K.C.B., Sir *Frederick Clarke*, Sir *Nathaniel Highmore*, K.C.B., and Mr. *C. J. Higginson* were examined.

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

Thursday, 27th June, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Mr. Higham.
Sir Hildred Carlile.	Sir Herbert Jessel.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Haslam.	Mr. M'Kinnon Wood.
Sir Charles Henry.	

The Vote of Credit Appropriation Account and the Civil Service Appropriation Accounts, Class VI., Vote 7, were considered.

Sir *Henry Gibson*, K.C.B., Mr. *Roland Wilkins*, C.B., Sir *Malcolm Ramsay*, K.C.B., Mr. *G. L. Barstow*, C.B., Sir *Henry Rew*, K.C.B., Mr. *John Pedder*, C.B., Sir *Cyril Jackson*, K.B.E., Mr. *H. N. Bunbury*, C.B., Mr. *S. Aldridge*, and Mr. *E. A. Sandford-Fawcett* were examined.

[Adjourned till Tuesday, 2nd July, at Two o'clock.

Tuesday, 2nd July, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Arnold.	Sir Charles Henry.
Sir Hildred Carlile.	Mr. Leif Jones.
Sir Henry Craik.	Mr. Jowett.

The Vote of Credit Appropriation Account and the Ministry of Pensions Appropriation Account were considered.

Sir *Henry Gibson*, K.C.B., Mr. *Roland Wilkins*, C.B., Mr. *G. L. Barstow*, C.B., Mr. *M. Delevingne*, C.B., Sir *Henry Rew*, K.C.B., Sir *Arthur Griffith Boscawen*, a Member of this House, and Mr. *J. A. Flynn*, C.B., were examined.

[Adjourned till Tuesday, 30th July, at Two o'clock.

Tuesday, 30th July, 1918.

MEMBERS PRESENT:

Sir ROBERT WILLIAMS, in the Chair.

Mr. Baldwin.	Col. Sir Herbert Jessel.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Lewis Haslam.	Mr. Jowett.
Sir Charles Henry.	Mr. M'Kinnon Wood.

DRAFT REPORT, proposed by the *Chairman*, brought up, and read the first time, as follows:—

CIVIL SERVICE ACCOUNTS.

OUTCOME OF THE ACCOUNTS.

1. The gross estimates for Civil Service Classes I. to VII. and Revenue and Revenue Departments for the year ended 31st March, 1917, amounted to £90,989,380, and the gross expenditure to £98,005,563 7s. 10d., shewing surpluses amounting to £2,763,871 0s. 11d., and deficits on normal grants of £9,825,054 8s. 9d. Appropriations in Aid estimated at £2,891,882, realised £3,465,814 15s. 8d., or £573,932 15s. 8d. more than was anticipated.

ALLOCATION FROM VOTE OF CREDIT.

2. In addition to the gross provision of £90,989,380, sums amounting to £9,863,135 0s. 6d. (being the gross deficits referred to above, and £38,080,11s. 9d. deficiencies in Appropriations in Aid in seven Votes) have been allocated from the Vote of Credit to meet excesses arising out of war expenditure properly chargeable to the Votes of the Civil Service and Revenue Departments.

VOTE OF CREDIT EXPENDITURE.

3. The procedure of former years has been continued and has necessitated issues from the Vote of Credit in the case of 37 votes, and the Comptroller and Auditor-General reports that he is satisfied that the sums so allocated represent expenditure on services falling within the terms of the Vote of Credit. As war expenditure is met from the ordinary vote to the extent that savings are available and only the excess over the normal provision is issued from the Vote of Credit, your Committee wish again to point out that the issues from the Vote of Credit do not represent the total Expenditure incurred by Civil Departments upon the War.

CLASS I., VOTE 10.—DEPARTURE FROM NORMAL CONTRACT PROCEDURE.

4. The Office of Works stated in a letter to the Treasury "that in order to meet unforeseen demands which had been made on this Department in connection with the Public Service in consequence of the War, it has been found necessary in making contracts and purchasing goods to depart from the normal contract procedure." The Treasury satisfied themselves that in many cases Officers of the Departments were able to assure themselves of the reasonableness of prices so paid, but they placed on record their view that no *prima facie* check of that kind appears to them to be so likely to be direct and effective as that which was furnished automatically by competition. They further expressed the hope that the office of Works would restrict, as far as possible, such purchases and that they, at the end of the War, might be informed of the total amount of the expenditure so incurred.

CLASS III., VOTE 7.

5. Your Committee were again informed that it was not found possible in the present state of public affairs to introduce the Expenses of Aid to Police Bill, but assurance was given that the matter will not be forgotten. Q. 227.

CLASS II., VOTE 12.

6. The Comptroller and Auditor-General reported that an Officer absent on military service had been nominated as private secretary to one of the Charity Commissioners and had had assigned to him from the 1st March, 1917, the £100 per annum usually granted, although he had not taken up his duty. On the matter being referred to the Treasury, covering sanction was given for the action taken, a course which your Committee regret. As, however, the officer in question received the money *bona fide*, your Committee will not disallow the amount, but they regret that payment of public money should have been made for services that could not be rendered; a practice that, if it prevails elsewhere, should cease. Q. 509.

VOTE 18.

7. With reference to the reports of former Public Accounts Committees on the question of reducing the number of Commissioners under the Board of Control, no opportunity has as yet arisen for doing this. Q. 538.

WOODS, FORESTS AND LAND REVENUES.

8. The Public Accounts Committee of 1917 enquired into the practice of the Office of Woods with regard to the allocation of the value of the annual fall of timber, and a suggestion was made that the Office should be treated under the law applying to settled estates, that is to say, that three-quarters of the net profits of the sale must be carried to capital. Your Committee understand that the principle is already adopted with regard to mines under the Office of Woods (where one-half the proceeds is carried to capital), and approve the suggestion that it be applied to sales of timber. Q. 608.

VOTE 2.—REVENUE DEPARTMENTS.

9. The Comptroller and Auditor-General reported that in certain cases connected with Excess Profits Duty he has been unable to procure all the documents necessary for his audit. It appears that in some cases liability to the duty is determined by the Surveyor after inspection of the taxpayers' books, and consequently there are no documents available for production to the Comptroller and Auditor-General. In reply to a suggestion that in future the necessary documents might be forthcoming, the Board of Inland Revenue pointed out that in the exercise of their statutory discretion they were at liberty to call for documents or to adopt other measures necessary for the purpose of making an assessment. In some other cases the local Commissioners of Income Tax declined to permit the production to the Comptroller and Auditor-General of Accounts which, though rendered to them by private individuals for Income Tax purposes, were also necessary to him for the audit of Excess Profits Duty. Your Committee appreciate the difficulty of requiring the books of private firms to be submitted to the Comptroller and Auditor-General, and also appreciate the effect of this on the conduct of his audit. They suggest that a conference on the question be held between the two Departments and the Treasury, with the view of meeting the requirements of the Comptroller and Auditor-General.

CLASS VII.—MINISTRY OF LABOUR.

10. National Insurance Acts, 1911–1915. (National Health Insurance.) Your Committee are glad to be informed that greatly improved accuracy is found in the accounts of approved societies generally. Q. 1063.

11. With regard to some of the conditions laid down for the conduct of the accounts of Associations, the Treasury, with some little difficulty, have agreed to relaxation of the necessity for daily signatures in the Vacant Books. Your Committee are satisfied that, under the special circumstances, such relaxation should be allowed, but they hope that steps will be taken to re-establish the normal rule as soon as possible. Q. 1078.

POST OFFICE.

12. A difference has arisen between the Treasury and the Post Office as to the rate of interest on which the actuarial calculations for the Pension Fund should be based. Your Committee have examined the memoranda (Appendices 8) submitted both by the Treasury and the Post Office, and are of opinion that the basis of 3 per cent. which has hitherto prevailed should be continued for the present. Q. 1142.

NAVY APPROPRIATION ACCOUNT.

13. The Appropriation Account has been rendered in the same form as those for 1914–15, and 1915–16, but a fuller account has been confidentially submitted to your Committee. Other accounts are kept as in pre-war times, and will be available for publication as soon as the state of public affairs permits.

NET DEFICIT.

14. The expenditure has exceeded the estimate of £207,954,228 16s., while the sum realised by appropriations in aid has fallen short of the estimated amount by £1,905,979 0s. 7d., so that the net deficit charged against the Vote of Credit is £209,860,207 16s. 7d.

VOUCHERS, ETC., NOT FORTHCOMING.

15. The Comptroller and Auditor-General reported that the delivery of Vouchers has not been maintained as satisfactorily as was anticipated, but while your Committee are inclined to think that the great difficulties under which the Admiralty are labouring, not only in the universal one of staff, but also in the scattered character of their accommodation in some twenty different buildings, may rightly be regarded as the reason, they hope that every effort will continue to be made to prevent the delay. Q. 1181.

NEW FORM OF NET COST, ETC., CONTRACT.

16. The Admiralty adopted a new form of Contract for Ship-building on the basis of net cost plus establishment charges (either on an agreed percentage or as ascertained by the Admiralty), together with a Q. 1277

profit of 10 per cent. upon the estimated cost, and a bonus of 10 to 20 per cent. of the amount by which the actual cost proved less than the agreed estimated cost, which seemed to your Committee to be in principle a suitable form in the absence of competition. This form your Committee learn has lately been amended and brought into line with the Marine Shipping Contract. Your Committee understand that the principal changes in the new form of Contract are that, in view of the high cost of labour, fixed amounts not necessarily bearing any relation to the actual or estimated cost are now included for establishment charges and profits. Your Committee will watch the outcome of the new system with interest, as its more economical working will depend upon the successful negotiation upon the part of the Admiralty of the amounts fixed for establishment charges and profit.

Investigation of Contractors' Costs.

Q. 1339. 17. Your Committee enquired as to the progress that was being made in checking claims for repairs and alterations carried out on the net cost system, and were informed that investigations were concluded in about 120 cases, and that further progress is being made from month to month. But the smallness of the available staff, and the difficulty of getting the necessary trained accountants is a bar to quicker progress. Your Committee hope that such efforts as are possible will be carefully maintained.

Royal Naval Cordite Factory.

Q. 1451. 18. The factory was designed originally to be not only a war establishment, but a permanent factory, at first only for the production of cordite from components bought elsewhere, but subsequently for the subsidiary manufacture from raw materials of the component parts of which cordite is composed.

The original estimates were also based upon the cost of the factory itself, with the knowledge that variation would probably occur according to the nature of any site which should finally be determined as the most suitable. The estimate grew largely from time to time; but your Committee are informed that the result is a cheapening both of the production of the cordite and a checking of the prices charged by outside manufacturers. They note that in this case, while the remuneration of the Superintending Engineers which was a percentage based, in the first instance, on the construction work, and which subsequently included also that of the mechanical engineering, was reduced at their own suggestion with the greatly increased total cost, but that it did not occur to the Admiralty to look far enough ahead to fix a maximum, which should not be exceeded, whatever the amount of money expended.

STAFF OF THE EXCHEQUER AND AUDIT DEPARTMENT.

Q. 1698. 19. The normal pre-war expenditure which came in course of audit in 1913-14 was £170,000,000, while in the accounts now before the Committee it is £2,162,000,000. The staff of the Department before the war consisted of 215 trained men, and whereas the audited expenditure has increased more than ten-fold, the present trained staff is equivalent in numbers only to 208, together with 123 temporary clerks who are only capable of doing routine work and the simpler accounts. More trained men are needed to cope with the growing expenditure of the Army, Navy, Ministry of Munitions and the Ministry of Pensions, not to mention other newly-created Government Departments. Your Committee hope that, in view of the extreme importance of the Department for national economy, no more trained men may be taken from it, and that every effort will be made to provide those now required.

MINISTRY OF MUNITIONS.

Form and Scope of Accounts.

Q. 1796. 20. The form of the Appropriation Account is the same as last year, though some of the sub-heads have been altered in connection with the transfer of the Ministry of extra services; the most important of which are the provision of mechanical transport, of railway material, and of aeronautical supplies.

Outcome of the Account.

Q. 1802. 21. The estimate was merely a token vote, and the excess of expenditure is £502,430,380 13s. 1d., which, added to a deficiency of £165,260 13s. 5d. on the amount of Appropriation in Aid, makes a total of £502,595,641 6s. 6d., which has been transferred to the Vote of Credit. The expenditure in the year ending March, 1916, was £222,000,000, while for the financial year recently completed it will be some £820,00 ,000, making in all £1,345,000,000. But against that it is reckoned that at March 31st, 1918, of fixed capital calculated with a heavy depreciation there was £40,000,000, Stocks at cost £240,000,000; Loans, Metals, &c., £70,000,000, or £350,000,000 together, while the Stocks held by the Army are reckoned at well over £100,000,000, so that more than one-third of the total expenditure is represented by existing assets, many of which, however, are essentially wasting in character.

It appears that supplies to the War Office and the Air Ministry are made without financial charge, whereas other Government Departments, such as the Admiralty and the Board of Agriculture, are charged for supplies furnished to them. It was represented that the Ministry would prefer to charge all Departments alike, a course which recommends itself to your Committee.

Treasury Control.

Q. 1831. 22. In October, 1916, an Inter-Departmental Emergency Committee was established, composed of representatives of the Treasury and of the Ministry, to deal with proposals for expenditure. It has now been decided that proposals involving capital expenditure of £50,000 or upwards shall be submitted to the Treasury, while the Ministry now has authority to settle claims for compensation owing to cancellation of Contracts up to a limit of £1,000.

Scope of Audit.

Q. 1851. 23. It has only been possible for the Comptroller and Auditor-General to provide trained Officers for the audit of the Ministry's Accounts to a very small extent, compared with the mass of the transactions, and the percentage of test audit cannot, therefore, be a large one. The number of contracts with which the Ministry dealt in the year 1915-16 was 12,730; for 1916-17 was 27,882, and for 1917-18 it has risen to 62,882, while the turnover of the Ministry was about £200,000,000 per annum, the number of drafts in 1917-18 being 1,200,000. This emphasises the necessity of strengthening the staff of the Comptroller and Auditor-General to enable him in some degree to keep pace with the increase of the work.

Accounts of the Ministry: General.

Q. 1871 and 1884. 24. The Committee find that the problem presented to the Ministry by the practical breakdown of their accounting system under the strain of the absolutely abnormal conditions of the early period of its existence was of a dual character, involving (1) the creation of an efficient system of record and account for current transaction, and (2) the re-examination and review of past transactions.

With regard to the first part of the problem, the accounting for current business, various radical changes were introduced tentatively and gradually which have culminated from 1st April, 1918, in a complete new system of account, approved in outline by the Treasury. The Committee are assured that, while there will no doubt be individual cases of error in future, owing to the bulk and complexity of the transactions and to staff difficulties, a very great improvement may confidently be looked for, and they hope to be able to record at the next opportunity that it has in fact been realised.

Appendix Paper No. 12 contains an interesting summary of the steps taken to improve the important part of the Ministry operations concerned with the invoicing of issues.

25. The second part of the problem is that which has been most in evidence before your Committee this year. The cases commented upon by the Comptroller and Auditor-General in his Reports on the various accounts of the Ministry for 1916-17 afford an indication of the extent and nature of that problem; but, in view of the notice that has been attracted to the subject, it is desirable to point out the differentiation to which those comments are liable.

A considerable number of the cases cited, and among them several which have attracted a large share of notice, are merely questions of accounting, which afford evidence of weakness in the accounting arrangements, but do not in themselves involve any loss or even risk of loss to public funds.

On the other hand, there is a numerically smaller but intrinsically more important group of cases in which the mistakes and gaps in the accounts were of such a character that grave danger of loss of public funds was involved, and the existence of such cases demonstrated the necessity for a drastic review of the transactions of the Ministry from their inception.

26. In these cases the facts are admitted or are at present under detailed investigation, and it is unnecessary to comment on them individually. The Ministry have for a long time had the matter in hand, and in April, 1917, the internal Audit Department was established to cope with the situation that had arisen by clearing up the relations with contractors. Further measures have now been decided upon to extend and complete the task of revision by focussing into proper accounts the essential information which is considered to be available either in various branches of the Ministry or with the individual contractors.

Having regard to the enormous values involved, your Committee are particularly impressed with the necessity Q. 2108.
for the application of this further investigation to the accounting records of material issued to contractors in regard to which the progress made by the Ministry towards clearing up the position is less satisfactory than in some other directions.

In the meantime the Committee desire to record their appreciation of the efforts that have been and are being made to reduce chaos into order, and to pick up and set straight the mistakes which were made under conditions of work for which there has probably never been any parallel.

Financial Relations with Contractors.

27. It appeared that in respect of loans to contractors due care had not been taken; that in some cases Q. 2152 and
interest had not been charged, and in others had not been claimed until long after it was due. It is of impertance 2197.
that claims of this nature should be preferred as they fall due, irrespective of financial negotations which may be in progress, and your Committee were informed that matters had now improved, and that claims for interest are, as a rule, sent in within a week of the due date.

Provisional Prices.

28. It was reported to your Committee that the system of paying for supplies at provisional rates to be Q. 2202.
adjusted subsequently by negotation was necesarily continued, particularly with regard to contracts for guns.

Capital Advances in Relation to Excess Profits.

29. On this matter two memoranda were prepared by the Ministry, and are printed as Appendix No. 14. In Q. 2218.
certain cases there had been a danger that firms might receive the benefit of the writing-off of excess profits both from the Ministry and the Inland Revenue, and the rules as to depreciation differed between the two Departments; Q. 2222.
but it was agreed by the Chancellor of the Exchequer that the writing down for depreciation allowed for the purposes of the Munitions Levy would be accepted by the Inland Revenue in calculating the amount of Excess Profits duty which might be leviable. The most recent practice is, however, for the Ministry to contribute a percentage of the cost of expenses, to be repaid through Excess Profits, provided the Inland Revenue allowed such a percentage to be written off. This removes any suggestion of interception of revenue, and regards the contribution of the Ministry as direct and final settlement. It also ensures that there is no remission of taxation by the Ministry, but that each case is dealt with by the proper Authority—namely, the Board of Inland Revenue.

Capital Expenditure on National Factories.

30. It has already been stated in the House that the cost of the factories has been about £66,000,000. The Q. 2235.
Treasury had sanctioned lump sums to be spent on the erection of factories as units or classes upon estimates furnished by the Ministry. In many cases the original estimated cost was largely increased; in some cases to three or four times the original amount, whilst the total sum sanctioned by the Treasury for certain classes was also exceeded. This was done without prior Treasury sanction, although covering authority was obtained after the expenditure had been incurred. The Ministry had not thought it necessary to consult the Treasury upon individual variations; but, as already stated, the practice has now been altered, and no estimate can be increased without Treasury sanction when the cost of the alteration amounts to £50,000.

Audit of Capital Expenditure and the Inventories of Ministry's Property.

31. There has been delay in the departmental audit of capital expenditure on assisted contracts and in the Q. 2267.
compilation of inventories of plant and machinery, which are or may become the property of the Ministry. The delay has been largely owing to lack of efficient staff, but the Committee trust that both these important tasks will be pressed forward.

Financial Control.

32. Various cases were under notice in which, under pressure of urgency of supply, etc., expenditure was Q. 2274,
incurred without adequate consideration, or on a scale that might have been materially reduced with a more effec- 2422, 2432,
tive system of financial control. The Committee believe that conditions have been materially improved in this 2444.
respect.

Co-ordination of Contracts.

33. The Committee are glad to record that effective steps have been taken to secure co-ordination in regard to Q. 2288.
contracts, not only as between various branches of the Ministry, but also as between Government Departments requiring similar supplies, and they hope that the difficulties which have apparently been experienced by the Q. 2472.
Admiralty in arriving at complete agreement on this matter will be successfully removed.

Issues to Allied Governments.

34. The weaknesses which developed in the accounts of the Ministry have resulted in delays and difficulty in regard to claims in respect of the large sums due from Allied Governments for purchases made on their behalf, and for issues from stock. Further complications as regards prices to be charged arose from the complexity of the financial conditions involved in the Government control over manufacturing and commercial affairs during the war. The situation is being carefully kept under review.

Rectification of Defective Supplies and Stock of Defective Shell.

Q. 2455. 35. During the year 1916 capital expenditure was incurred in connection with the rectification of warlike stores from overseas, whilst considerable loss was incurred owing to rejection of unserviceable material. It was not found possible in the early days of the war to obtain the same standard of inspection in America as obtained in the United Kingdom, and upon the more rigid examination in this country a certain percentage of supplies which had passed inspection in America were rejected. Your Committee are informed that the cost of the rectification and replacement has only been ·4 of 1 per cent., and that the rectified supplies are gradually being used. A memorandum on the subject of re-inspection of American supplies is contained in Appendix No. 15. With regard to the rectification and utilization of defective and obsolete stocks in this country the Committee understand that Q. 2467. much attention is being given to this matter, and they hope that economy may be effected by this means.

Staff of Ministry.

Q. 2470. 36. The Committee of Public Accounts of last year expressed the opinion that Treasury control for appointment of staff and salaries had been somewhat unduly relaxed. It is stated that the procedure has now been tightened, and it was given in explanation of some of the unusually large rises in salaries that a good many persons came into the office believing the war would only last a short time, and therefore prepared to make considerable monetary sacrifices, which in subsequent years became impossible, and they were obliged, therefore to ask for a salary more commensurate to the work they did, and even then often not on a commercial scale.

Aeronautical Supplies.

Q. 2472. 37. From 1st March, 1917, the Ministry became responsible for the supply of aeroplanes, engines, etc., although during that month the accounting machinery and payment remained in the hands of the Admiralty and War Office. The contracts transferred ta the Ministry by the Admiralty and War Office showed considerable divergencies in method between the two departments, particularly in regard to firms new to the work, but the Ministry have now cleared the position a good deal.

Q. 2483. 38. Your Committee are informed that the Ministry, while they are placing contracts on the fixed price system also employ that of cost, plus percentage. In this case a careful watch is kept over the amounts incurred and the basis of the contract altered to the fixed price system as soon as possible.

Q. 2496. 39. The Admiralty in 1915 entered into contracts with an American Company for aeronautical supplies involving heavy payments, but a large amount of the expenditure was only brought to account by the Ministry in November, 1917. Treasury authority had been obtained for part of the commitments, but the Admiralty did not ask for sanction before incurring important liabilities beyond the original programme.

The history of the contracts in question is understood to be still under enquiry, but the Committee are of opinion that the Comptroller and Auditor-General is right in thinking that the approval of the Treasury should have been obtained before the settlement was finally made with the contractors involving the large sums of—

(a) £1,006,433 14s. 2d. in respect of supplies up to 31st July, 1916.

(b) £1,088,877 4s. 7d. for the value of work done and loss of profit on order afterwards cancelled.

(c) £88,750 4s. 6d. in respect of suspension of work pending settlement.

Housing Schemes.

Q. 2540 and 2549. 40. From the figures available it appears that the total capital expenditure on the various housing schemes to 31st October, 1917, was £1,150,000, the buildings in some cases being of a temporary character. The occupation of cottages was fairly complete and regular except in one instance, but that is not the case with the hostels. They were the quickest to put up and the cheapest, and in view of the crowded conditions of the time, it was considered essential to provide accommodation without delay, but it was found that they were not popular because they involved a certain amount of restriction, and they are, therefore, now generally discontinued. As the buildings have not been utilised to their full capacity the prices charged for accommodation, which were originally intended to cover expenditure and provide interest on the sinking fund and capital, have been found to be insufficient for this purpose, and taking the schemes as a whole a rough calculation indicates that to the 31st October, 1917, the expenditure, apart from capital, exceeded the receipts by £8,000, and only in a few instances (generally where the cottage system prevails) did the receipts exceed the expenditure. The Committee trust that every endeavour will be made to secure the working of these housing schemes on the most economical basis consistent with efficiency, and they are of opinion that greater co-ordination of control might be attended with beneficial results.

Canteens.

). 2566. 41. The canteens attached to National Factories were started in the early part of 1916 and the general responsibility for their workings was undertaken by the Central Liquor Control Board, the Ministry defraying the cost of building, lighting, heating and equipment, it being the intention that apart from these capital charges the canteens should be self-supporting. The principal deficiency in the accounts of the canteens arise in the first year's working; partly because the Control Board desired to make the canteens popular even at the risk of financial loss, whilst the Ministry desired to provide employees with food at as low a price as would be consistent with financial solvency so as not to deter private firms from adopting similar schemes. A Finance Committee was appointed in March, 1917, at which the Ministry and the Control Board were represented and which had effected considerable improvements in the balance sheets of the canteens. Your Committee are of opinion that the aim of the Ministry was a right one.

). 2582. It was noticed in one factory that the employees contributed only partially to the cost of the meals, the difference (amounting to 10s. a week per head) being one of the expenses of the factory; while in another case the staff receive meals free.

The position of the Ministry in relation to this matter and to the other points raised by the Comptroller and Auditor-General is set out in the correspondence printed in Appendix No. 21 The Committee regret that the Finance Department were not consulted in regard to the question of payment of part of the cost of meals at certain factories, and they are glad to observe that improvement has taken place in the financial control over the canteens, and they hope that the question of central purchasing of supplies by the Ministry or some large quasi-official organisation like the Army and Navy Canteen Board will continue to be kept in view.

Motor Transport.

42. The Comptroller and Auditor-General reports that the centralization of the control of mechanical transport Q. 2595. has resulted in considerable economies. Other improvements in financial control have since been made as a result of his investigations, but full co-ordination is desired between the Ministry and the War Office. Your Committee hope that this will be effected as soon as possible.

Expenditure by the Imperial Munitions Board.

43. Your Committee are informed that the transactions of the Board come under the general arrangements Q. 2605. for Treasury Control.

Unsatisfactory Store Accounts.

The system of Central Store accounting instituted as from 1st January, 1917, did not realise expectations, and Q. 2608. the Committee are informed that recently a new system has been adopted under which the depôt records will become the official accounts, and will be subjected to departmental local examination. They hope that strict watch will be kept over the matter, and that improved results may follow.

Stocktaking.

Stocktaking was resumed in 1917, and your Committee are informed that stock has been taken at 114 out of Q. 2614. 142 stores, and that the net deficiencies are working out at a small amount.

MINISTRY OF MUNITIONS: ORDNANCE FACTORIES APPROPRIATION ACCOUNT.

1.—Form and Outcome of the Account.

44. The account is in the same form as that which was presented last year, and shows a total deficit of £2,328,123 14s. 10d., the expenditure having exceeded the gross estimate by £1,008,268 15s. 6d., while there was a deficiency of £1,319,863 19s. 4d. in the estimated amount of Appropriation in Aid.

2.—Delays, etc., in Accounting at the Ordnance Factories.

45. The Comptroller and Auditor-General reports that serious delays had occurred in recording large Q. 2619 and transactions which should have been included in the account for 1915–16. It appeared that the earlier arrange- 2639. ments left much to be desired, but that material improvements were resulting from the steps which are now being taken. Among these transactions is a charge of £140,204 for timber supplied by Office of Works, the delay in this case pointing to a failure between the departments to arrive at a reconciliation, and your Committee desire to emphasize the necessity of pressing forward the adjustment of the accounts.

MINISTRY OF MUNITIONS: ORDNANCE FACTORIES ANNUAL ACCOUNTS.

Increased Output of Factories.

46. A comparison of the principal items of the Balance Sheet since the beginning of the war shows that they have increased, as from 1913–14, as follows:—

Book value of fixed capital from £2,287,895 to £4,696,964.
Book value of stores in hand from £860,908 to £5,330,983, and Production from £3,821,052 to £32,666,528.

Stocktaking.

47. Your Committee is informed that it was not possible to resume stocktaking until 1917–18, and that no results have yet been reported.

Store Accounts.

48. The delayed adjustment of accounts between the Ordnance Factories and Ministry of Munitions Votes, Q. 2678 and to which reference is made in paragraph 45, was caused chiefly by the failure of the Ministry to furnish priced 2681. invoices for materials supplied to the factories. From the same cause the Store Ledgers, which deal concurrently both with quantities and values, were unsatisfactory, many receipt entries being hung up pending receipt of the priced invoices.

Your Committee hope that effective and early steps will be taken to place the Store Accounting on a satisfactory basis.

MINISTRY OF MUNITIONS: NATIONAL AND ROYAL AIRCRAFT FACTORIES.

49. Your Committee approve the suggestion of the Comptroller and Auditor-General that these accounts should continue to be presented separately, but it is important for them to be rendered in time to be dealt with in connection with the Appropriation Account of the Ministry.

Departmental Audit.

50. The Departmental Audit has been continued by Officers under the direction of the Director of Factory Q. 2712. Accounting or by private local firms of chartered accountants. These accounts have been properly drawn up and certified. The conditions of the records on which these accounts are based is such that the Committee approve of the course that was taken to make no attempt to rectify them, but start again as from 1st April this year. Your Committee are informed there is no question of any possible loss of cash or of interest.

Breakdown of Headquarters Records.

51. There was a considerable breakdown of headquarters records in materials despatched to and from the Q. 2714. factories, and your Committee are informed that the Treasury have approved of the proposal of the Ministry to accept the balance of stock shown on the factory records on the 1st April, 1918, as the Head Office Record, of which your Committee approve. The factory cost accounts appear to have served their double purpose of a check on the efficiency of the factory, and of comparison with contractors' prices, and taking into consideration the capital expenditure, depreciation and interest on capital, it has been possible to manufacture supplies in the national factories cheaper and at more advantageous terms than they can be obtained from contractors. In the case of the explosive factories there is no doubt they have paid for themselves.

Cost Accounting.

52. The reports furnished to the Comptroller and Auditor-General of many of the factories show that it was a considerable time before reliable costing figures could be obtained, but your Committee are informed that considerable improvements have now taken place and they hope that care will be taken to obtain more reliable results in the future.

Government Rolling Mill.

Q. 2742. 53. Up to 31st March, 1917, capital expenditure to the amount of £755,000 had been incurred on a large rolling mill against the original estimate of £630,000, but your Committee are informed that many of the necessary items were omitted from the original provision, and that additional services proved to be necessary, so that the estimate of capital expenditure is now £1,200 000. Your Committee note with regret that the Department did not go to the Treasury for sanction, but the new arrangement between the Ministry and the Treasury provides that for every alteration of estimate exceeding £50,000 the sanction of the Treasury must be first received.

ARMY APPROPRIATION ACCOUNT.

Form of Account.

Q. 2813. 54. The form of the Account has been varied this year at the suggestion of the War Office by the inclusion of the corresponding figures for 1915–16, which is an improvement, as it affords a ready means of comparison with the expenditure of the previous year.

Excess Vote.

55. The net deficit charged against the Vote of Credit amounts to £587,781,557 3s. 0d.—after taking into account the Appropriations in Aid of £2,065,391 6s. 8d. realised in excess of the Estimate. For the appropriation of this amount, Parliamentary Authority will be required by means of an Excess Vote, to which your Committee agree.

Contract Procedure.

Q. 2816. 56. Your Committee are informed that an important change in the organisation of the War Office has been made in the appointment of the Surveyor-General of Supply as an additional member of the Army Council to control the commercial side of supplying the Army, which resulted in considerable alterations in organisation of the Contract work. There is now a Director of Raw Materials and a Director of Army Contracts. Your Committee are informed that the amount of work fully justified the appointment of the second Director.

Contracts in the Egyptian Command.

57. In Paragraph 39 of the Report of the Committee of Public Accounts of last year notice was taken of the neglect on the part of the Army Authorities in Egypt to take proper advantage of the local experience of the Egyptian Government, and the Committee regarded the subsequent formation of a Local Resources Board to supervise Army Contracts in Egypt as a good method of avoiding the repetition of unsatisfactory features in local contracts.

Your Committee regret to learn from evidence given before them this year that the Military Authorities in Egypt are using the Local Resources Board only as and when they think fit, and your Committee trust that steps will be taken at once to insure that the fullest advantage is taken of the knowledge and experience of the members of that Board.

Financial Control in Expeditionary Forces.

Q. 2854. 58. A misunderstanding arose upon the construction of a paragraph in the Field Service regulations, which was held to give the General Officers Commanding in the Field the power to ignore or overrule any representations made by the representatives of the Accounting Officer of the War Office. Your Committee are glad to be informed that the contention of the local Military Authorities in question has now been withdrawn.

Simplification of Accounting in Units Desirable.

Q. 2861 and 2871. 59. A Royal Warrant was issued on 3rd December, 1917, which, *inter alia*, transferred to Army Funds the whole charge for compulsory allotment hitherto in force in respect of Separation Allowance. Your Committee enquired as to whether the Accounting in the Units would be thereby simplified, and they were informed that this would be the case as regards alloments, but in other respects it made accounting more difficult. It was also brought to the notice of your Committee that the forms of Account were not always easily understood. They are aware that in such a large organisation as the Army it is not possible to do without more forms than are needed in smaller concerns, but they trust that care will be taken both to minimise the number of the forms, and also to make them as easily understood as possible.

Delegation of Army Council Powers to write off in Commands.

Q. 2864. 60. During the year, power was given to Regimental Paymasters to deal with debtor balances up to £1, and local auditors were employed to write off over issues of Separation Allowances not exceeding £30, provided no fraud was suspected, or regimental negligence involved. Your Committee enquired whether it was found that extravagance had resulted from the practice, and though they were glad to be informed that the power was not abused, they trust that the Comptroller and Auditor-General will watch carefully the exercise of the newly delegated powers.

Territorial Force Associations.

Q. 2893 61. An examination of the annual grant showed that, in many cases, Associations had a balance in hand on the year's working, and the Comptroller and Auditor-General enquired whether the Associations were not merely agents for the War Office, and their accumulated balances, therefore, available for general use. The Army Council answered that they were not prepared to take any steps that would reduce the Associations to the position of mere agents, whose accounts would have to be audited, and whose administration would have to be correspondingly controlled by the War Office.

Army Canteens.

2946. 62. The accounts of the Navy and Army Canteen Board, which was established as the Army Canteen Committee to control the administration of Army Canteens and Regimental Institutes, are subject to audit by an outside firm, with Treasury right to examine the accounts at their discretion. The Treasury has now advanced the sum of £3,000,000 from the Vote of Credit, as a working capital, to be repaid on the 31st December next. Your Committee are informed that means have been taken to secure that, as far as possible, there shall be no loss to Public Funds.

Canteen Profits on Cash Allowance for Rations.

63. In reference to the evidence before the Public Accounts Committee of last year, with regard to the profits arising from purchases made out of the 5½d. cash allowance for rations, the Committee are informed that the sum of £40,000 was received from the Army Canteen Committee in respect of profits for the March quarter, 1917. Your Committee enquired if further profits would be treated as an appropriation in aid of Army Votes, but were informed that the Army Council are of opinion that all the profit belongs to the soldier—and therefore ask for authority to make no further payments from the Canteen Board to the Exchequer. This authority your Committee should be given. Q. 3023.

Expenditure on Inland Water Transport Works.

64. In the early part of 1916, Treasury sanction was given for Schemes initiated by the Inland Water Transport Department at an estimated cost of £109,000. Development of such facilities was a matter of great importance and urgency, and the Schemes were greatly extended and rapidly put in hand without the cognizance of the Finance Branch of the War Office or of the Treasury. It was some months before the former appreciated the situation, but in August, 1917, a revised estimate of £931,000, purporting to cover all the Schemes in hand, was submitted to the Treasury, and approved by them, with a protest as to the difficulty in which such action placed them in discharging their responsibilities to Parliament. In addition to this amount, outstanding liabilities of £130,000 which had been omitted came to light. Further commitments and increase of estimates involved an additional £350,000, and these figures do not include the cost of Military labour employed, which at the rate of eightpence per hour, per man, appears to be upwards of £500,000 Owing to the urgency of the work, Cabinet sanction was obtained for various increases of estimates, and your Committee regret that this was thought to render the Departmental sanction of the Treasury unnecessary. Moreover, the fact that Military labour was employed, and large portions of the material taken out of Store, points to serious omissions in the scheme of financial control in the War Office. Your Committee are glad to understand that measures are being taken to avoid such a serious gap in the system of Financial Control in the War Office. Q. 3110.

VOTE OF CREDIT.

Outcome of the Account.

65. The total expenditure amounted to £1,962,982,432 5s. 3d. as compared with an estimate of £2,010,000,000 and of this amount £649,375,487 19s. 10d. was outside the ambit of any Parliamentary estimate other than the Vote of Credit, and accounts have been duly furnished for all the charges. The net receipts carried forward to 1917–18 amount to £11,539,650 2s. 3d., which is an addition to £1,521,185 9s. 8d. shown in the accounts of 1914–15 and £13,722,560 19s. 1d. in 1915–16. On services which have been finally closed £11,478,227 have been paid to the Exchequer.

Raw Materials Controlled by the Army Council.

66. The form of accounts is made up in accordance with arrangements decided by the Treasury and the War Office, and the cash accounts have been examined by the Comptroller and Auditor-General in the ordinary course A detailed account of the process of controlling raw materials was furnished your Committee, and appeared to them to give a sufficient grip of the transactions. They are informed that steps which are taken will result in greater accuracy in the cost at which the various stocks are valued. Q. 3230.

At first no provision was included in the trading accounts for Interest on Capital advanced from public funds. Your Committee are glad to know that the omission is now rectified. Q. 3241.

Sugar Supplies.

67. The accounts of the Royal Commission on Sugar Supply dealing with the purchases, sales and stocks, have been examined by the Treasury and the results communicated to the Comptroller and Auditor-General. Your Committee enquired whether annual accounts had been prepared showing the full results, and are informed that they have been furnished to the Treasury up to March 31st, 1917. The result of the total operations, so far as completed contracts are concerned, seem to show a slight profit up to that date. Your Committee are informed that though the accounts of the Sugar Commission, like those of all Royal Commissions, are administered by the Treasury, yet they are now passed direct to the Comptroller and Auditor-General for his examination, a course of which your Committee approve. Q. 3501 and 3521.

Payments under Agreement with American Packers Respecting Goods Seized.

68. Payments were made to certain American Firms for goods ships to Scandinavia which were seized as suspected prize. It was explained to your Committee that there were legal difficulties through which it was impossible to make payments to the American Firms from the Prize Fund, and they approve the action of the Treasury in making the necessary payments from the Vote of Credit pending the introduction of legislation to confer power to recover from Prize Funds. And the same condition applies to the Expenses of the Prize Claims Committee connected with the use of ships condemned or detained as Prizes of War. Q. 3542.

Central Control Board.

69. Your Committee are informed that it will soon be possible to publish trading accounts of the Central Control Board, but that the disclosure of the figures at present might hamper negotiations which are in progress. It was not stated to your Committee that these were numerous; and a Balance Sheet such as would be presented by any public company should be prepared and published as soon as possible.

Expenditure by the Ministry of Shipping.

70. The primary object of this service was the financing and payment of transport services with the Allied Governments. Your Committee enquired as to whether the accounts against the various Governments were allowed to run any considerable time, but were informed the arrears have been overtaken and on 31st March were practically non-existent. Q. 3607.

Purchase and Sale of Wheat.

71. Your Committee are informed that the Committee on National Expenditure is dealing fully with the policy and outcome of the transactions of the Wheat Committee. The Comptroller and Auditor-General reports that the accounts were at first badly kept, and that in some cases it is impossible, owing to the incidents of war, to obtain the necessary vouchers. The accounting has now been taken in hand and a balance sheet promised. Your Committee consider it ought not to be long delayed, and should be, as far as possible, on commercial lines. Q. 3718.

MINISTRY OF PENSIONS.

Establishment, Powers and Duties.

72. The Ministry was established by 6 and 7 Geo. V. cap. 65, which transferred to the Minister the powers and duties of the Admiralty and War Office relating to the grant of pensions, other than service pensions, to persons who have served as officers or men and to their dependants. The powers and duties of the Commissioners of Chelsea Hospital, *except those* in respect of in-pensions, were also transferred.

The date of transfer was fixed by Order in Council at 15th February, 1917, and regulations laying down the rates of pensions and the conditions under which they may be granted were subsequently embodied in Royal Warrants and Orders in Council for the Army and Navy respectively, with application from 1st April, 1917, and with restriction to claims arising out of the present war.

Interpretation of Warrant Governing Awards of Pension.

73. The Royal Warrant provides that a pension shall be granted to a soldier discharged as medically unfi for further service, such unfitness being certified as either attributable to or aggravated by military service in consequence of the present war and not being due to the serious negligence or misconduct of the discharged man.

The Accounting Officer of the Ministry and the Comptroller and Auditor-General have drawn attention to what they regard as an increasing tendency on the part of the Ministry of Pensions to interpret the terms of the Royal Warrant in a strained and unnatural sense to an extent which involves improper expenditure of public money.

Appendices xvi. and xvii. In response to a request by your Committee typical cases were put before them, in some of which the Minister had overruled the protest of the Accounting Officer to the effect that the awards were irregular and required Treasury sanction.

In certain cases also the Comptroller and Auditor-General, endorsing the opinion of the Accounting Officer, referred the awards to the Treasury, who regarded them as not covered by the terms of the Warrant.

Your Committee also took evidence from the Parliamentary Secretary to the Ministry who explained the policy of the Minister, and claimed that he must have a very wide discretion as interpreter of the Warrant.

App. xvi., pp. 5–9. Your Committee have carefully considered the facts submitted to them. They are clearly of opinion that some of the awards are *ultra vires*. They trust, however, that the modifications in the terms of the general instructions, which have been agreed to by the Treasury, will tend to regularise the procedure for the future.

Treasury Letter of 4th May, 1918. App. xvi., p. As regards the powers of the Minister of Pensions in relation to the interpretation of the Warrant, they must emphatically assert that his powers in no way differ from those of the Army Council in the interpretation of the Royal Warrant for Pay, etc. They endorse the opinion of the Committee of Public Accounts in 1884, 1889 and 1898, that so far as practicable any action taken under a Royal Warrant should be in accordance with the simple and ordinary meaning of its language. Wherever a discretionary interpretation becomes necessary, that interpretation should not be opposed to but in harmony with the natural meaning, intention and purpose of the Warrant: and if in special cases it appears to be necessary to deviate from the plain meaning of a Warrant the concurrence of the Treasury should be obtained.

Your Committee regard it as of the utmost importance in the interest of the taxpayer that the very heavy expenditure on war pensions should be administered under all proper and necessary safeguards.

Question, That the Draft Report proposed by the *Chairman* be read a second time, paragraph by paragraph—put, and *agreed to*.

Paragraphs 1—10, *agreed to*.
Paragraph 11, amended and *agreed to*.
Paragraphs 12—24, *agreed to*.
Paragraphs 25, 26, amended and *agreed to*.
Paragraphs 27, 28, *agreed to*.
Paragraph 29, amended and *agreed to*.
Paragraphs 30, 31, *agreed to*.
Paragraphs 32, 33, amended and *agreed to*.
Paragraphs 34—37, *agreed to*.
Paragraph 38, amended and *agreed to*.
Paragraphs 39, 40, *agreed to*.
Paragraph 41, amended and *agreed to*.
Paragraphs 42—50, *agreed to*.
Paragraph 51, amended and *agreed to*.
Paragraphs 52—62, *agreed to*.
Paragraph 63, amended and *agreed to*.
Paragraphs 64—68, *agreed to*.
Paragraph 69 amended and *agreed to*.
Paragraphs 70—73, *agreed to*.

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

Thursday, 1st August, 1918.

MEMBERS PRESENT:

Sir Robert Williams, in the Chair.

Mr. Arnold.	Mr. Leif Jones.
Mr. Haslam.	Mr. Jowett.

The Vote of Credit Appopriation Account was further considered.

Sir *Henry Gibson*, K.C.B., and Colonel Sir *Thomas Robinson*, K.C.M.G., were examined.

Draft Report, proposed by the *Chairman*, further considered.

New paragraph brought up, read the first and second time, and agreed to as follows:—

In accordance with instructions of the Treasury, Civil Service Estimates are prepared on a pre-war basis, no changes due to the War being included. As a result, the estimates in many cases make no pretence to represent the real expenditure of the year. Your Committee are of opinion that the estimates should present as accurate a forecast as possible of the expenditure of the coming year, and that all foreseen items should be included. At the same time, an estimate of the expenditure due to the War might be made and deducted from the total estimate, so as to show on the face of the Vote the estimated expenditure of the year on a peace footing.—(Mr. *Leif Jones*.)

Another new paragraph (Army Appropriation Account) brought up, read the first and second time, and agreed to as follows:—

Vote 8. Ordnance Department Establishments and General Stores.

Overcharge to Subhead D. Equipment Stores.

Q. 3161 and 3184. The Accounting Officer brought to notice that two book-keeping errors, as a result of which there was an overcharge of £490,442 17s. 8d. to Subhead D. Equipment Stores 1916–17, had only recently come to light in his Department.

The accounts as between the War Office and the Contractor were correctly kept, and there was no risk of the latter being credited with monies in excess of what was due.

The failure to detect the overcharge to the Vote in time to rectify the account for 1916–17 was due to the fact that the usual agreement of records between the Branch operating the contracts and the Ledger Branch had not been carried out before the Appropriation Account was closed.

Steps have been taken to prevent the recurrence of similar errors, and your Committee are of opinion that it will suffice, as proposed, to adjust the overcharge in the account for 1917–18 and append a note explanatory of the circumstances.—(The *Chairman*.)

Question, "That this Report, as amended, be the Report of the Committee to the House"—put, and *agreed to*.

Ordered, To Report.

LIST OF WITNESSES.

Tuesday, 12th March, 1918.

	PAGE
Sir S. Olivier, K.C.M.G., C.B.	1
Mr. R. Wilkins, C.B.	1
Sir L. Earle, K.C.B., C.M.G.	2
Mr. J. A. W. Buchanan, O.B.E.	2
Mr. A. Barnes, I.S.O.	8
Mr. H. A. Ferguson-Davie	9
Mr. M. Delevingne, C.B.	10

Thursday, 14th March, 1918.

Sir S. Olivier, K.C.M.G., C.B.	11
Mr. R. Wilkins, C.B.	11
Sir W. Jerred, K.C.B.	11
Mr. J. A. C. Tilley, C.B.	12
Mr. H. Lambert, C.B.	16
Mr. A. E. Stephenson, C.M.G.	16
Mr. J. G. Willis, C.B.	17
Sir D. Hall, K.C.B.	17
Mr. F. L. C. Floud	17
Sir W. Turpin, K.C.B.	20
Mr. H. P. Morris	20
Dr. M. Cooke	22
Mr. J. W. Cawston, C.B.	23
Sir B. Mallet, K.C.B.	24
Mr. F. Atterbury, K.C.B.	24
Mr. C. E. Howlett, I.S.O.	25
Mr. M. Evans	25

Tuesday, 19th March, 1918.

Sir S. Olivier, K.C.M.G., C.B.	27
Mr. R. Wilkins, C.B.	27
Sir J. M. Dodds, K.C.B.	29
Mr. C. H. Hunt, M.B.E.	30
Mr. J. M. Paulton	31
Sir C. Stewart, K.B.E.	32
Mr. E. Brine	34
Sir J. Struthers, K.C.B.	35
Mr. C. L. Davies, C.B.E.	36
Sir F. Clarke	37
Mr. B. P. Moore	39

Thursday, 11th April, 1918.

Sir S. Olivier, K.C.M.G., C.B.	41
Mr. R. Wilkins, C.B.	41
Sir R. P. Wright	42
Mr. J. Handford	42
Mr. H. W. Orange, C.B., C.I.E.	44
Mr. H. N. Bunbury, C.B.	45
Mr. L. J. Brock	45
Sir D. J. Shackleton, K.C.B.	47
Mr. D. H. Boggis-Rolfe	48
Sir C. A. King, C.B.	49

Thursday, 18th April, 1918.

Sir S. Olivier, K.C.M.G., C.B.	52
Mr. R. Wilkins, C.B.	52

LIST OF WITNESSES—*continued.*

Thursday, 18*th April*, 1918—continued.

	PAGE
Mr. G. L. Barstow, C.B.	53
Sir A. Eyles, K.C.B.	53
Sir H. Livesey, K.B.E.	58
Mr. A. W. Smallwood, C.B.E.	58
Mr. A. F. Whinney	61
Mr. G. B. Cobb	63

Thursday, 25*th April*, 1918.

Sir S. Olivier, K.C.M.G., C.B.	64
Mr. G. L. Barstow, C.B.	64
Sir A. Eyles, K.C.B.	64
Mr. T. Sims, C.B.	65
Colonel Sir F. L. Nathan	65
Mr. G. H. Ashdown	69
Mr. F. Ward	70

Thursday, 2*nd May*, 1918.

Sir H. Gibson, K.C.B.	70
Mr. R. Wilkins, C.B.	70
Sir M. Ramsay, K.C.B.	70
Mr. C. H. R. Stansfield	77
Mr. G. W. Chrystal	78

Thursday, 9*th May*, 1918.

Sir H. Gibson, K.C.B.	79
Mr. G. L. Barstow, C.B.	79
Mr. S. Dannreuther, C.B.	79
Mr. G. F. Garnsey	79
Mr. A. Watson	79

Thursday, 30*th May*, 1918.

Sir H. Gibson, K.C.B.	86
Mr. G. L. Barstow, C.B.	86
Mr. S. Dannreuther, C.B.	86
Mr. G. F. Garnsey	86
Mr. A. Watson	86

Tuesday, 4*th June*, 1918.

Sir H. Gibson, K.C.B.	97
Mr. G. L. Barstow, C.B.	97
Mr. S. Dannreuther, C.B.	97
Mr. G. F. Garnsey	97
Mr. A. Watson	97

Thursday, 6*th June*, 1918.

Sir H. Gibson, K.C.B.	108
Mr. G. L. Barstow, C.B.	108
Sir J. Mann, K.B.E.	108
Mr. S. Dannreuther, C.B.	108
Mr. G. F. Garnsey	108
Mr. A. Watson	108

Tuesday, 11*th June*, 1918.

Sir H. Gibson, K.C.B.	120
Mr. G. L. Barstow, C.B.	120
Mr. S. Dannreuther, C.B.	120
Sir G. Garnsey, K.B.E.	120
Mr. J. A. Flynn, C.B.	127

Thursday, 13*th June*, 1918.

Sir H. Gibson, K.C.B.	130
Mr. G. L. Barstow, C.B.	130
Sir C. Harris, K.C.B.	130

Tuesday, 18*th June*, 1918.

Sir H. Gibson, K.C.B.	142
Mr. G. L. Barstow, C.B.	142
Sir G. Garnsey, K.B.E.	142
Sir C. Harris, K.C.B.	143

Thursday, 20*th June*, 1918.

Sir H. Gibson, K.C.B.	152
Mr. R. Wilkins, C.B.	152
Sir C. Harris, K.C.B.	152
Mr. A. E. Watson	155
Mr. A. Barnes, I.S.O.	155
Sir W. Jerred, K.C.B.	158
Sir D. Hall, K.C.B.	159
Sir L. Earle, K.C.B.	161
Sir F. Clarke	163
Sir N. Highmore, K.C.B.	164
Mr. C. J. Higginson	164

Thursday, 27*th June*, 1918.

Sir H. Gibson, K.C.B.	165
Mr. R. Wilkins, C.B.	165
Mr. G. L. Barstow, C.B.	165
Sir M. G. Ramsay, K.C.B.	165
Sir H. Rew, K.C.B.	167
Mr. J. Pedder, C.B.	167
Sir C. Jackson, K.B.E.	169
Mr. H. N. Bunbury, C.B.	169
Mr. S. Aldridge	170
Mr. E. A. Sandford-Fawcett	170
Mr. J. A. Flynn, C.B.	171
Sir M. G. Ramsay, K.C.B.	172

Tuesday, 2*nd July*, 1918.

Sir H. Gibson, K.C.B.	172
Mr. R. Wilkins, C.B.	172
Mr. G. L. Barstow, C.B.	172
Mr. M. Delevingne, C.B.	172
Sir H. Rew, K.C.B.	174
Sir A. G. Boscawen, M.P.	177
Mr. J. A. Flynn, C.B.	185

Thursday, 1*st August*, 1918.

Sir H. Gibson, K.C.B.	188
Sir T. Robinson, K.C.M.G.	188

MINUTES OF EVIDENCE.

Tuesday, 12*th March* 1918.

MEMBERS PRESENT:

Mr. Baldwin.
Mr. Reginald Blair.
Sir Hildred Carlile.
Sir Henry Craik.
Mr. Haslam.
Sir Charles Henry.
Mr. Higham.
Mr. Jowett.
Sir Robert Williams.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir SYDNEY OLIVIER, K.C.M.G., C.B., and Mr. ROLAND WILKINS, C.B., called in; and Examined.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-1917.

Chairman.

1. (To Mr. *Wilkins.*) The Treasury Minute has been already handed in, has it not?—Yes, both Treasury Minutes; they were printed in advance in accordance with the request made last year for the convenience of the Committee, and I think they have been sent round to the Members. I have also to hand in the comparison of audited expenditure with Exchequer Issues, and general abstract of Appropriation Accounts 1915-16 (*handing in the same.*)

CLASS 1.

Chairman.

2. (To Sir *Sydney Olivier.*) With regard to paragraph 3 of the Report of the Comptroller and Auditor-General on page 1, "Allocation from Vote of Credit," Sir Sydney, that is the same process as last year, I think—Precisely.

3. As to paragraph 4, the surplus of Revenue is a little bit larger—about £200,000?—That is so.

4. (To Mr. *Wilkins.*) With regard to paragraph 6, Mr. Wilkins, perhaps you can tell us about the extended powers which have been delegated by the Treasury to the Office of Works. How have they been extended?—The Office of Works stated in a letter to the Treasury, "that in order to meet unforeseen demands which have been made on this Department in consequence of the requirements of the Public Service in connection with the war, it has been found necessary in making contracts and purchasing goods to depart from the normal contract procedure" in various respects. The Treasury took note of their assurance that in many cases the Officers of the Department were able to assure themselves of the reasonableness of the prices paid, but they placed on record their view that no prima-facie check of this kind appeared to them so likely to be direct and effective as that was which was furnished automatically by competition. They said they did not think that serious objection existed, particularly when prices were rising, to purchasing on the basis of previous contracts, but they expressed the hope that the Office of Works would restrict as far as practicable purchases on the basis of such contracts, plus an addition to the price, and purchases without any competitive element; particularly if the delay involved by inviting tenders was only a matter of a day or two. Having said that they added that subject to these observations, they authorised the First Commissioner to make the best arrangements he could in the interests of the Public Service on the understanding that he would be prepared in due course to defend, if necessary, the application of this procedure in particular cases. Then they asked that at the end of the war they might be informed of the total amount of the expenditure incurred on these lines.

5. Have the Treasury taken any steps to see that that hope of theirs was fulfilled, or asked the First Commissioner of Works to justify any particular demand he has made?—No, they acceded to his request, subject to that warning, but they have no reason to think that the warning has not been carried out.

Chairman—*continued.*

6. You have made inquiries and have found that it has been attended to?—Not since then.

7. You have simply expressed a pious hope and left it to fructify without watching its growth?—Yes.

8. Was this power a general power over all things, so that now, so far as the Treasury is concerned, the First Commissioner has got unlimited leave from the Treasury to spend any amount of money in any way he likes?—No, the subject matter of this arrangement was the purchase of stores without competitive tender.

9. That was the only thing he asked?—That was the only thing.

Sir *Charles Henry.*

10. It says here, "and extension of contracts"?—The meaning of that is that you might have a contract running, and the Office of Works might, instead of inviting tenders, desire to extend the contract on the same terms.

11. Am I to understand that the Office of Works could not embark on a new building under that Order without bringing in competition, or going through the usual course?—This is the question of the purchase of Stores.

12. As regards new buildings, they have no facilities to go beyond the usual course?—No.

13. May I ask when that was dated?—Certainly; the Office of Works wrote to us on the 20th September, 1916, and we replied on the 29th.

14. It only deals with six months of the Accounts under review?—Yes.

Mr. *Higham.*

15. Pursuing Sir Charles Henry's inquiry about buildings, you have no idea as to the extent to which the Office of Works have erected new buildings?—No.

Mr. *Haslam.*

16. Is it specifically stated in this Order that it refers to stores only?—Yes, that was the subject matter of the correspondence—the purchase of stores without competition.

Chairman.

17. With regard to paragraph 8 of the Report, I understand the explanation will be ready by the time we have reached the Vote?—Perhaps I might just say, if it suits the Committee, that Mr. Barstow and myself have arranged that he should take that in connection with the Army and Navy Estimates.

Sir *Hildred Carlile.*

18. With reference to paragraph 10, may we have some explanation of the extraordinary excess over the Estimate? There seems to be something due to the Mint?—The Deputy Master will be coming later.

19. And it would be more convenient to take it when he is present?—Yes. The explanation is the issue of silver coin.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17—*continued.*

ON VOTE I.

ROYAL PALACES.

Sir LIONEL EARLE, K.C.B., C.M.G., and Mr. J. A. W. BUCHANAN, O.B.E., called in; and Examined.

Chairman.

20. (To Sir *Lionel Earle.*) I observe, Sir Lionel, that the same paragraph which comes at the top of page 11 comes on every one of your Votes?—It does.

21. Perhaps you can tell us something about it?—It appeared also on last year's.

22. And the same answer you gave last year would apply to this?—Exactly.

ON VOTE 2.

OSBORNE.

Chairman.

23. (To Sir *Lionel Earle.*) With regard to Sub-head D, "Victualling and Medical Comforts," there is an over expenditure of £2,267 3s. 6d. Does that bear any relationship to the great loss of receipts from patients at 2s. 6d. a day?—No.

24. Where does that loss come in? You seem to have been disappointed of about £1,400 in the Estimate?—It was due to the extra cost of victualling. (Sir *Sydney Olivier.*) And the increase of numbers. (Sir *Lionel Earle.*) And the large increase in the number of patients due to the war.

25. If you had a larger number of patients you had much fewer paying 2s. 6d. a day apparently?—Yes. The Treasury remitted, of course, the 2s. 6d. a day they used to pay when the war broke out, because we felt it was absolutely unfair to charge these officers who had had their wounds and disabilities in the war when all the other hospitals gave them free treatment.

26. Quite right; if you had had that £1,596 I imagine your Sub-head D would have been less, would it not?—No, it would not affect D.

27. It would have gone to the Appropriations-in-Aid?—(Mr. *Wilkins.*) D is gross expenditure, J is the receipts.

Sir *Charles Henry.*

28. This is hospital accommodation for officers, is it not?—(Sir *Lionel Earle.*) Yes, naval and military.

29. Is there any reason why they should not be charged to their respective Departments, the War Office and Admiralty?—That is an accounting matter, it seems to me, but it has nothing whatever to do with the War Office. The War Office has nothing to do with the administration of it.

Sir *Henry Craik.*

30. It is perfectly uncertain whether these are naval or military people there at the time?—Quite uncertain.

31. It is just by chance?—Just by chance; it is open to all.

32. And it would not be possible to assign a certain amount to the Navy and a certain amount to the Army?—It would be very difficult, and then there are flying men, too, so that you would have to charge a certain number to the Air Board.

Chairman.

33. I suppose you have got a daily register of admissions?—Yes.

34. And you know exactly whether they are Army or Navy or Air Board?—It seems to me that if you charged it to the Departments they would say, "We ought to administer this place."

Sir *Henry Craik.*

35. Can you see any possible advantage in dividing it?—None.

Sir *Charles Henry.*

36. I can from the point of view of accounting, but that is a matter of opinion?—(Mr. *Wilkins.*) It will be obvious to the Committee that a good deal of labour would be involved in allocating the expenditure. (Sir *Lionel Earle.*) Enormous. Part of Osborne still consists of Royal apartments, which are in normal times show places, and I think the War Office or the Admiralty would jib very much if any part of that was charged to them.

Mr. *Higham.*

37. If Osborne had not been in existence these men would have gone to hospitals which would have been charged to their respective Departments?—They would have gone to naval or military hospitals then.

38. And each Department would have been charged then?—Yes, because they built the hospitals and ran them.

Mr. *Haslam.*

39. Is this the total annual cost for the hospital?—Yes, the total cost in this year.

ON VOTE 3.

ROYAL PARKS AND PLEASURE GARDENS.

Chairman.

40. (To Sir *Lionel Earle.*) With reference to Sub-head D, I think, Sir Lionel, the Public Accounts Committee some years ago recommended that the police and park-keepers should be separated, if possible, and it has never been done. Has it proved to be impossible?—I think it would be perfectly possible.

41. Was it not recommended in the Public Accounts Committee's Report of 1912?—It was not recommended in my time.

42. Would you look into it?—Certainly.

43. I observe on page 16 this note "Royal Parks: Breaking up and cultivation of certain areas, £705 19s. 8d." That is the cost crop?—That was the cultivation of the parks at Bushey and Richmond which the First Commissioner thought desirable in order to produce food.

Sir *Charles Henry.*

44. And we have the results in this morning's paper?—We have.

Sir *Hildred Carlisle.*

45. Shortly, what was the result?—The result, as regards Bushey Park, is that there is a net profit of £105 3s. 10d. without charging anything for the land; and as regards Richmond Park there was a loss of £386 15s. 1d.

46. £200 to the bad on the two transactions?—I have also a note to the effect that the seed, which was given to us free, was of the value of £110 for Richmond and £116 for Bushey.

47. So that the £110 for Richmond would have to be added on to the loss that you have just stated?—Yes, if you take the cost of the seed which was given as free from a patriotic point of view. I am bound to tell the Committee that I do not think it is fair to take one year, because the proper way, I think, to look at it is at the end of the cultivation, and to see then how it works out.

Sir *Henry Craik.*

48. So far as it has gone the only effect of this expenditure is to prove the utter futility of such an undertaking?—I will not go quite so far as to say that, but I think it was a mistake to grow oats at Richmond, which was never broken up before. It was done on the most expert advice we could get, namely, Dr. Russell, of the Board of Agriculture.

Sir *Charles Henry.*

49. What crops are you putting down this year?—Potatoes and cabbages and so on in Richmond Park, and we are growing wheat in Bushey Park, and carrying out a rotation of crops, which has been advised by various experts whom we have consulted.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 3.—Royal Parks and Pleasure Gardens—*continued.*

Chairman.

50. I observe from a note on the same page that Regent's Park and Kensington Gardens are being utilised for the preparation and upkeep of model allotments?—Purely from the educational point of view.

51. Have they been successful from that point of view?—Very successful. I have been asked by the Food Controller to produce something like a million seedlings, which is being done in the glass-houses at the present time, for the various allotment holders in the neighbourhood of London, and these they will buy at no loss to the public.

Sir *Henry Craik.*

52. Referring to sub-head E 1: "Works in progress," on page 15. What is the meaning of the excess expenditure to improve the water supply to the Round Pond and the Serpentine?—That was because the wells at the head of the Serpentine failed. I think it is due to the sinking of artesian wells in these big hotels all over London, and the water therefore, as it did at Orange Street, on the north of Trafalgar Square, failed; and inasmuch as we have a very large surplus of water from surface wells just opposite the Foreign Office in St. James's Park, it was considered the best way was to lay pipes and feed the whole of the Serpentine and the Round Pond from there. That water is pumped up there, and it will be a very economical arrangement in the long run. We had during the last year or two to take a certain amount of water from the Metropolitan Water Board to prevent the Serpentine getting too low, and the expense, I need hardly say, was prohibitive.

53. The St. James's Park Pond, of course, is empty?—It is empty now; that is on account of aircraft.

Mr. *Haslam.*

54. Does this cost include the pumping?—The pumps were there already, because they serve the Victoria Memorial, and they were powerful enough to do this pumping as well.

ON VOTE 4.

HOUSES OF PARLIAMENT BUILDINGS.

Sir *Charles Henry.*

55. (To Sir *Lionel Earle.*) May I ask how the repairing of the roof of Westminster Hall is getting on?—I think it ought to be completed in about three years from now, because we have had, naturally, to reduce the staff of skilled steel workers enormously to release them for more important work connected with the war, and we are keeping on the smallest number. The roof is absolutely held now; there is no danger of any part of it coming down. We have completed three bays, and I hope to get three more finished at the end of this year, and that will be six out of twelve.

Sir *Henry Craik.*

56. What about the lantern which was broken in the roof—is that part of your plan?—That was merely to replace the lantern which was there before, and is practically erected on exactly the same lines, with slight variations, but almost exactly the same.

57. What was the other made of?—It was very rotten, and absolutely gone, although it was not so very old; it was only 130 or 140 years old.

58. And just constructed of metal, I suppose?—It was made of deal, with lead flashings, possibly. It was not very well constructed. The new one is very well constructed.

Mr. *Higham.*

59. How much has been spent on the Westminster Hall roof up to March, 1917?—Altogether?

60. Yes, including this?—I could let you have the correct figure, but it is a little over £23,000.

61. At the same time you will probably let us have what has been spent on it since then?—We can let you have the total amount spent on the Hall since we began up to date.

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CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 4.—Houses of Parliament Buildings—*continued.*

Mr. *Haslam.*

62. With regard to sub-head D, and particularly as to Lighting, I notice in various places in the House of Commons that when the switch is turned on the whole of the lights go up for perhaps one solitary member. Would it not be an economy if there were some other switches, so that a member could turn on a light if required, and turn it out afterwards?—In the Lower Smoke Room, for instance, I have been there an hour or two at a time alone, and yet the whole of those lights, forty or fifty, I suppose, were turned on for my sole benefit?—I quite agree, but I am bound to say that every attempt I have hitherto made to effect economies as regards coal or anything like that has been perfectly futile in the House of Commons. I have tried to reduce the fires, and so on.

63. What I ask for now is that a switch should be put on in one of the rooms adjoining, so that both rooms do not need to be lighted up when one only is required, or, at any rate, that there might be some switch by which a single light or so could be turned on so as to be light enough for a member to see his way about and so that the whole of the lights should not be turned on for one member only.

Mr. *Wilkins.*

The honourable member may be interested to know that I made the same suggestion a few weeks ago with regard to the Treasury. I think all the new switches are to be done in that way.

Sir *Lionel Earle.*

Yes, and if it was not for the difficulty with regard to material, which is intensely great at the present moment, and also as to labour, we could get this done fairly quickly.

64. I would like you to make a note of it?—I will have it looked into at once.

65. I was referring to the small Smoke Room?—I will have them all seen to, and see what can be done.

ON VOTE 5.

MISCELLANEOUS LEGAL BUILDINGS, GREAT BRITAIN.

No questions.

ON VOTE 6.

ART AND SCIENCE BUILDINGS, GREAT BRITAIN.

No questions.

ON VOTE 7.

DIPLOMATIC AND CONSULAR BUILDINGS.

Chairman.

66. (To Sir *Lionel Earle.*) There is a large over-expenditure on sub-head A, on page 23, I see, Sir Lionel?—On new works.

67. They come on the next page, do they not?—Yes, the details come on the next page.

68. Referring to the second note on page 25, have you lost anything by exchange elsewhere than in this particular instance of "Gulhek"?—China, of course, is very much affected.

69. Do you know your loss altogether by exchange?—I do not at the present moment, but I daresay I could ascertain.

Sir *Charles Henry.*

70. There was a supplementary Vote for loss on exchange?—The last note there accounts largely for the expenditure on new works, the conversion of the Embassy stables at Washington into offices.

ON VOTE 8.

REVENUE BUILDINGS.

Chairman.

71. (To Sir *Lionel Earle.*) I think, Sir Lionel, you have adopted a new plan this year. In former years you

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 8.—Revenue Buildings—*continued.*

Chairman—continued.

you estimated rather fully, and made a deduction afterwards of works you thought would not be completed?—Yes, that was so.

72. This year you have dropped that last deduction, and made a very much smaller provision?—Yes, very much smaller, because the programme has disappeared practically for Post Offices now. We are not building any more new Post Offices.

Mr. *Haslam.*

73. With regard to sub-head J under Inland Revenue Buildings, would my remarks about lighting refer more or less to Government buildings elsewhere?—I think they might in certain old installations.

74. My object is to make it so that an individual interested in saving light should be able to turn on and off the light?—That is so in all the recent public buildings; the light has always been installed on those lines, and I will call the special attention of the engineers to the matter and have a general report made as to the various buildings, and see whether anything can be done to effect economies. (Mr. *Wilkins.*) With reference to the Chairman's last question, I have referred to the estimates of 1917-18, and there I find that the proposed works in the Revenue Buildings estimates were nil, and "Deductions" appears in italics, but of course there is no figure opposite it. That shows that the form of the estimate is preserved, and the deduction will revive whenever there is something to deduct it from.

Sir *Charles Henry.*

75. With reference to sub-head E on page 26, I observe there was a considerable increase in fuel, light, and water. You have no control over these different Departments as to the use of their fuel and light?—(Sir *Lionel Earle.*) We have some control; we have some inspectors who go round, and we have also circularised on three or four occasions the different Departments imploring them to be careful. We have given definite instructions that fires are not to be lit before a certain time when the officials arrive, and not to be made up after a certain hour in the evening, and made general rules of that kind, and certainly I think it has had a very marked effect. We have also recently issued a circular enjoining the Public Departments to mix coke with their coal, which will effect very considerable economies. We have also forbidden fires in all rooms where there is central heating, that is to say, where there are radiators, except on a medical certificate.

76. Was there a substantial increase in the price of fuel during the period under review?—Very heavy.

77. That is the time when the increase was most pronounced?—Very great.

Mr. *Higham.*

78. How do you account for the fact that under sub-head E, which deals with the Customs and Excise buildings, there was an excess of over £3,000, whereas under sub-head J, which deals with Inland Revenue buildings, there was a saving of about £4,000?—I think you will see the explanation of that in the note at the bottom.

79. I beg your pardon?—There was a large number of extra Tax Offices.

80. You have not the figures there to show whether there was an excess in the buildings actually in use; I suppose that is a division you would not make?—No.

81. Would overtime, working in the night time, account for any extra expenditure on fuel and light?—Certainly it would.

82. And of course there has been a great extension of overtime?—There has been in all Departments, certainly in the Inland Revenue and Customs there has been very heavy overtime.

Sir *Charles Henry.*

83. In all new construction I suppose central heating is the principle adopted now, is it not?—Yes, there are fire-places in a few of the senior officials' rooms; for

Sir *Charles Henry*—continued.

instance, there is one in my room, but I have not had one single fire during this winter or last except on one occasion, when I was ill, and I had it; nor has the First Commissioner.

Chairman.

84. Turning to page 29, under A iii., "Urgent and Unforeseen Works," I see with regard to London there is an excess of £3,887, and if you look over the page you will see "Custom House Temporary Building on Quay, £3,080." Have you got any idea of the total amount of new offices put up during the year, because, of course, this extra work goes all through this Vote—"New Offices," "New Offices," "New Offices"?—Yes, I have, because I got out a statement which I think I am going to be asked about to-morrow by a sub-committee of Mr. Samuel's Committee on National Expenditure, and we have got out a statement of the total cost of all these buildings.

85. Is that up to date?—It refers to offices built, commandeered, or acquired by consent, and it is up to date.

86. Could you tell me the amount of charges on this Vote in this particular year?—On all the Votes, you mean?

87. No; it is almost all on this Vote?—I have not got the figure now, but we could easily add them up.

88. It is chiefly on this Vote, is it not?—No. Public Buildings, I should say, is much the biggest.

Mr. *Haslam.*

89. This may be unnecessary, but I think there may be something in it. Is there an inventory taken of all the furniture and furnishings in the various public buildings annually, so as to compare the values from one end of the year to the other, and the amount of added furniture in the particular Department?—No, I do not say that it is taken annually, but we have, of course, an inventory of the furniture. It would be a very gigantic business to take an annual valuation of all the furniture in the public buildings, I am afraid.

90. But there should be some check on furniture being removed from one Department to another?—The official in charge of that Department is responsible for the furniture for the time being, and it cannot be removed without his authority, and he would notify any change.

91. There is a valuation from time to time of the entire assets, as it were, of the furniture and other effects in different Departments?—No, I should not say there was an actual valuation; I do not think people go round and say: "That chair has depreciated £10."

92. A percentage? Are these accounts accessible to the public, and when I say the public I mean Parliament?—I think it would be as successful as an individual going round, because you would have to have an army of them. The public buildings throughout the country are gigantic in number.

93. I only ask for what is regularly done in ordinary business concerns; people generally know the value of their furnishings?—The same thing would have to be done abroad in all the consulates. We have complete inventories of everything in each Embassy building.

Sir *Henry Craik.*

94. An article of furniture cannot without permission be removed even from one room to another?—I will not go so far as to say that.

95. There is a distinct regulation about it; if they are assigned to a particular room there has to be a distinct Order to remove them from one room to another, so as to know exactly what the furniture of that room is?—That is so as regards certain pieces of furniture; I would not say so about an ordinary chair, but any historic furniture, or anything of interest, like the Nelson furniture at Admiralty House, could not be removed from that house without the authority of both the Board of Admiralty and the Commissioner of Works.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 8.—Revenue Buildings—*continued.*

Chairman.

96. I understood you to say there was a fixed charge for depreciation made?—(Mr. *Wilkins.*) I do not want there to be any misunderstanding about it; there is no attempt to keep a depreciation account for the furniture in the departments taken altogether. I was just going to intervene about that. (Sir *Lionel Earle.*) We certainly do so in Embassies abroad. (Mr. *Wilkins.*) That must be a special case.

97. In all these Government offices at home you do not know, therefore, what is the value of the furniture at any given date?—(Sir *Lionel Earle.*) No.—(Mr. *Wilkins.*) Certainly not the sum which the furniture would fetch if put up for sale, because there would be no point in such an account.

98. You have not got anywhere what it cost? Every official in charge knows what he has got, and has a list of the furniture under his charge, so that you could get the aggregate of that, surely?—(Sir *Lionel Earle.*) I do not know that he knows its value.

99. But you know, or he knows, what that furniture cost?—No, I do not suppose we should know what it cost supposing it was bought twenty or thirty years ago.

100. You know the value of anything additional that has been put in?—Certainly, if it was bought within the last few years.

101. Therefore you would very soon get to know, or you ought to know by this time, the value of the furniture you have got, from which you could deduct a regular depreciation every year, but you have not done that?—No. (Sir *Henry Craik.*) The fact is, Sir Lionel, that your furniture in the public offices is kept up in a tolerably average state of repair; if a piece of furniture gets into decay it is replaced, and constantly throughout an office, if we find the furniture getting out of repair, it is repaired, so that there would be a sort of level value kept up. We are not like an ordinary business, and this furniture is not considered as an asset which has to be reckoned among your assets, and there would never be a sale of it.

Mr. *Haslam.*

102. I still think there is something in what I suggested; I still hold to the opinion that it would be a wise thing to know from time to time what is in every Government office in the way of furniture and fixtures, and have some sort of valuation. I do not see why what can be done in all private concerns which are wisely managed should not be equally well done in public offices?—The question of the preparation of inventories of furniture was to be considered directly after the war, and I am afraid it would be quite hopeless to attempt to do it now.

103. I do not ask for it now, but possibly it might effect some economy in the future if this matter was looked into.

Sir *Henry Craik.*

104. Surely the wide distinction is this, that this is not a commercial undertaking at all. The furniture is kept in a public office for public use, not that it may be reckoned as an asset or hereafter realised, as it might have to be in a commercial office. Would it not be a very great waste of time and labour to attempt to value what you are simply keeping for public purposes and public use, and not as an asset at all?—(Mr. *Wilkins.*) I am bound to say that the Treasury would entirely concur in the view expressed by the right honourable member that it would be an improper expenditure of public money.

Sir *Charles Henry.*

105. May I take this a step further: Owing to the emergency caused by the war you have had to buy a great deal of additional furniture for these offices?—(Sir *Lionel Earle.*) Yes.

106. And at the end of the war a great many of these offices will be disbanded and their furniture will not be required, and may be disposed of?—It may be, or it may be put into store.

107. And you would need a pretty big store to put all that furniture in. I suppose you have not got a note of the extra furniture you have bought and paid for in order to supply these offices?—Certainly, I could tell you in a minute, directly I could get to the accounts, the amount of money we have spent on furniture during the period of the war.

108. Do you think it would be inadvisable for you, as representing the Office of Works, to have an account kept of the amount spent each year on furniture, so as to form some idea of what assets you have got?—It is kept now. (Mr. *Wilkins.*) What is not kept is the depreciation. (Sir *Lionel Earle.*) I can tell you accurately what is spent on furniture at any time.

Mr. *Higham.*

109. When a new building is projected the architectural plans are prepared in the Office, are they not?—They are.

110. There is a Committee sitting at the present time to whom those plans have all to be submitted for purposes of economy?—No.

111. I have been told there was?—There is no Committee in my Department.

112. But there is a separate Government Committee to which all plans are submitted?—That is merely to give priority certificates and to decide whether the work should be allowed to proceed or not. That is a Works Construction Committee and they do not supervise plans; they merely consider whether a certificate should be given for the work to be proceeded with at all.

113. Do not they supervise and decide as to whether the plans are extravagant or not?—No, they have certainly not supervised any of our plans from that point of view.

114. Do your plans go to that Committee for priority?—Yes, but only as to whether the work should be allowed to proceed or not.

Sir *Charles Henry.*

115. I should like to ask a general question on the whole of this Vote: Is the work on these new buildings carried on now by estimate and competition, or is it carried on upon the quantities system?—Always by competition.

116. For the building complete, or on the quantities system?—For the building complete based on quantities.

117. You have a schedule of prices, and the work is measured up afterwards?—Yes, so far as variations are concerned

118. That is the usual course?—Yes, with the widest competition possible, only I am bound to tell you that the competition is not so wide as usual, because a great many contractors will not tender. We seek to make it as wide as possible.

119. Have you got the authority that some other Departments have, that if you do not get a reasonable price you should fix your price yourselves?—No, we have not the power, and we have never exercised it.

120. If you have not the power you have never exercised it, but did you never apply for it?—Never. Perhaps I may say something when we come to it on that question you put to Mr. Wilkins on the stores question. I think I can enlighten the Committee a little more as to the detail when the question comes up later.

Mr. *Higham.*

121. On this question of office accommodation, I suppose it does not come within your purview, and you have nothing to do with the number of staff accommodated within the office?—No, we have no power as to that; the only thing we can do is that we insist upon their providing schedules with the number of staff they intend to employ. We then map out the accommodation if it is a new building, or a commandeered building, and we then say "so many superficial feet will satisfy you for so many men."

122. The point in my mind was that I have been told repeatedly that in the building we are using there is accommodation for twice, thrice or even quadruple the staff working in those buildings, and that there is enormous waste of accommodation?—I do not think that is so.

12 *March* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. R. WILKINS, C.B., Sir L. EARLE, K.C.B., C.M.G., and Mr. BUCHANAN, O.B.E. [*Continued.*

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 8.—Revenue Buildings—*continued.*

Chairman.

123. At any rate, it has nothing to do with you, Sir Lionel?—We have had Inspectors continually going round, and the War Cabinet Committee on Accommodation reporting as to whether offices are properly used or not, and, on the whole, I should say their reports are very favourable. There have been one or two instances where they were not satisfactory, and steps were immediately taken to remedy the state of affairs.

Sir *Charles Henry.*

124. Some Departments were using their space better than others?—Far better.

Chairman.

125. Turning to page 35, I observe that on the Woolwich Post Office extension you overspent £2,000. I suppose you had to do it?—That is a remanet from the previous year.

126. I observe, about the middle of page 41, an item of expenditure on a temporary sorting office at Grantham nearly £1,700. I suppose that was because there was a big camp close by and the Post Office increased enormously?—I think so.

Mr. *Higham.*

127. What is generally the material used in the construction of a building like that? Is it mainly wood?—Not now, as we cannot get wood, and so we have to construct in brick and concrete blocks and other materials, and no wood is employed at all, and it is even cheaper now to build for a semi-permanent building of brick and concrete than it would be to build of wood.

128. I suppose you have considered that these buildings might be used for a different purpose afterwards?—I am afraid the Government buildings could only be removed.

129. The huts would be removed and sold, I suppose?—But only as break-up material.

130. I wondered if buildings of that temporary character could be used as shops afterwards or for some other purpose?—No, because most of these temporary buildings will have to be cleared from their sites probably. The most of our temporary buildings have been in the London parks.

131. I was taking this case at Grantham?—(Mr. *Wilkins.*) It is possible that a place like this might be used as a shop.

Sir *Charles Henry.*

132. The decision as to the extra accommodation a Post Office might require rests entirely with you as regards the class of accommodation you use?—(Sir *Lionel Earle.*) Absolutely, subject, of course, to any remonstrances the Post Office might make.

133. When you decide on the accommodation, do you bear in mind what my friend has raised about the ultimate use after its temporary use has been fulfilled?—No, I cannot say we do, because we are bound to place it where the Post Office require it, and we have to build it to suit their requirements. What suits the Post Office requirements now would not of necessity suit a shop after the war.

ON VOTE 9.

INSURANCE AND LABOUR EXCHANGE BUILDINGS, GREAT BRITAIN.

Chairman.

134. (To Sir *Lionel Earle.*) You took a Supplementary Vote for this, I think?—We did.

135. You did not spend it all?—The Supplementary Vote the other day, do you mean?

136. No, in this account, £85,000 for Labour Exchange and Insurance buildings?—That was in reference to this big building at Kew.

137. That is the one on page 48, is it not? You spent £75,000 on it?—Yes.

138. Is the other £20,000 going to be spent?—Oh, yes, it is all spent now.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 9.—Insurance and Labour Exchange Buildings, Great Britain—*continued.*

Chairman—continued.

139. So that you could not have foreseen that you might have taken only £55,000 in that particular year?—No, it is impossible to foresee what the labour market and materials may be at a given moment.

ON VOTE 10.

PUBLIC BUILDINGS—GREAT BRITAIN.

Sir *Charles Henry.*

140. (To Sir *Lionel Earle.*) Referring to Sub-head G, "Furniture," there is a very big item of £89,000 in excess of the Estimate?—That is not surprising, looking to the amazing amount of offices which have had to be started.

Mr. *Haslam.*

141. Which shows the enormous value of the furniture in the Government buildings at one place and another, and I do think there ought to be some knowledge of the value of those assets?—You must remember that no provision was made in the Vote for War Expenditure at all.

Sir *Charles Henry.*

142. When these Estimates were produced in the beginning of 1916?—I could not tell what the expansion of these offices was to be.

143. You allowed for no extension?—No.

144. You only estimated for normal expenditure?—Normal times, yes.

Mr. *Higham.*

145. That is your policy each year?—That is our policy.

Sir *Charles Henry.*

146. You are doing the same this year?—Yes.

Mr. *Higham.*

147. That accounts for A being £4,000 instead of £20,000?—Yes.

Sir *Charles Henry.*

148. You get allocations from the Vote of Credit for the difference, do you?—Yes.

Chairman.

149. The note to Sub-head I on page 52 is "the gross expenditure on this Sub-head estimated at £205,000 amounted to £563,000. The credits in respect of stores issue estimated at £204,000 amounted to £568,000. The excess of £5,766 has been carried to the credit of 'Appropriations-in-Aid.'" But if you look below you see "The value of stores in hand on the 31st March, 1917, was £130,000." How do you arrive at that figure of £5,766 carried to Appropriations-in-Aid? Were all your stores paid for; were the whole amount of stores paid for?—No. (Mr. *Buchanan.*) The position is this, that the amounts credited for the issue of stores in that year exceeded the charge on the Sub-head, the net excess being credited to Appropriations-in-Aid.

Mr. *Higham.*

150. The stock went down by £8,000?—No. (Mr. *Wilkins.*) The Sub-head is a separate entity; it purchases stores and then sells them either to other Sub-heads of this Vote, or to other Votes. Therefore it has the amount it spends in the year; and, secondly, the amount it gets in and the difference between those two is this sum of £5,766, which had to be disposed of, and it was put into Appropriations-in-Aid. I should say that this purchasing and selling Sub-head was started three or four years ago, and it has been found a great convenience by the Office of Works. (Sir *Lionel Earle.*) It has. (Mr. *Wilkins.*) There is no doubt it has been a successful departure.

151. Do-

12 *March* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. R. WILKINS, C.B., Sir L. EARLE, K.C.B., C.M.G., and Mr. BUCHANAN, O.B.E. [*Continued.*

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 10.—Public Buildings, Great Britain—*continued.*

Mr. *Higham*—continued.

151. Do you always charge the Department just the amount you give for the Stores?—(Sir *Lionel Earle.*) We charge a percentage.

152. That is for handling?—Yes.

Chairman.

153. Does this £5,000 odd represent the percentage?—Partly, yes.

Mr. *Higham.*

154. What do you charge?—10 per cent.

155. The percentage would be £50,000 odd then, and it would go to the expenses of the Department, would it?—It is 10 per cent. on all the Stores.

156. You would have £56,000 to the good, and then all the expenses of the Department.

Sir *Hildred Carlile.*

157. Do you not think it is 1 per cent. and not 10 per cent.?—It is 10 per cent.

Chairman.

158. You charge against that all your expenses?—Yes, and we are considering at present whether we ought not to reduce it. (Sir *Sydney Olivier.*) The figure that appears in the Appropriation Account depends on how much they have issued; if they have not issued they have a surplus of stores. They do not get their credit until they issue their stores, and they have been accumulating large reserves of stores.

Sir *Charles Henry.*

159. May I put this question? Do those credits come from your own Office of Works or from other Departments?—(Sir *Lionel Earle.*) It is on our own Votes, and then it is on a recoverable basis from the Department.

160. You do not charge the other Departments, the Ministry of Munitions, the War Office, or the Admiralty; it is your own different sub-heads of your Department that you charge, is it not?—(Mr. *Buchanan.*) I may say that we buy all the stores from this sub-head; we make purchases from this sub-head, and as we issue to other Votes the sub-head is credited.

161. To the other Votes?—Other sub-heads of this Vote or to other Votes under our own control; we credit this sub-head and debit the respective amounts to the other Votes. Further, we supply stores to other Public Departments on repayment, and it is in respect of those stores that we charge this 10 per cent. handling charge.

Chairman.

162. It is only on the stores supplied to the other Departments that you charge the 10 per cent.?—The large expenditure this year is in connection mainly with stores for the Ministry of Munitions and the War Department.

Sir *Charles Henry.*

163. Why do you discriminate by charging stores to other Departments and not other services?—All issues bear their share of the cost of handling stores. Agency services are debited with the percentage referred to, while services borne upon the Votes of the Office of Works are charged on a system of apportionment *pro rata* with the value of issues.

164. That is not an answer. I will put a concrete question to you. Why do you charge other Departments with stores and not charge them with fuel you deliver to them to heat their building?—We do in cases where such services are covered by their own Votes; for instance, buildings we supply to the Ministry of Munitions, we charge them with the fuel we issue to them, and the same with the War Department.

165. Do you charge them with the fuel?—Certainly. The cost of fuel for Administrative Offices of the War Department, the War Office in London, is borne on Civil Votes, but when it comes to charges for the supply of fuel, which we carry out for the War Office for services borne on their own Vote, they have to pay.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 10.—Public Buildings, Great Britain—*continued.*

Sir *Charles Henry*—continued.

166. This is a question of principle which I am rather interested in. We learn now that in some instances you do charge Departments for stores supplied to them?—In those cases where we act as agents.

167. My question is: So long as you have that principle established, why is it not extended to a greater extent?—(Mr. *Wilkins.*) The Hon. Member will note the phrase that Mr. Buchanan has just used, "agency"; that is the key to a great deal of that matter.

168. I am not concerned with whether it is as agent or principal.

Chairman.

169. To go back to these stores, do you take stores on charge before they are paid for?—(Sir *Lionel Earle.*) We take them on charge directly we receive them.

170. Whether you pay for them or not?—Yes.

171. Therefore stores may be taken on charge on the 31st March, or for this year, say, the 25th of March, and passed out to another Department on the 5th March, for which you get a credit in that financial year?—Yes.

172. And you do not pay for them until the next financial year?—That is so.

173. At that rate you cannot call what you have received for these stores an Appropriation-in-Aid because you wait till next year; you are taking credit for an Appropriation-in-Aid for something you have to pay in future, is not that so?—(Mr. *Wilkins.*) I did not quite follow the question.

174. Sir Lionel Earle says that they had this £5,766, which is profit really, or it agrees with what he sells to other Departments, and I am putting this question: A lot of furniture comes in on the 15th March, and it is taken on charge on the 15th March. On the 20th or 25th March in the same financial year it goes out to some other Department, and is charged to that other Department, and part of that charge is put down to Appropriations-in-Aid, but it has not been paid for in that particular year, and therefore the particular year is getting credit for an Appropriation-in-Aid for that which has not been paid for. Really they ought to have waited to see what you paid for it?—I must say that, *primâ facie*, that does not appear desirable, but I am not prepared to say that it cannot happen in any case. I think the less it happens the better.

175. Sir Lionel, should I be wrong in suggesting that a very large amount of stores was not paid for at the conclusion of the particular year? You have outstanding liabilities of something like £60,000 or £70,000?—(Sir *Lionel Earle.*) That is quite probable.

176. Will you look into that? If that is so, if you owe £90,000 for furniture, I do not see how the Appropriation-in-Aid should come in for £5,000. Will you look at that before next year, Mr. Wilkins?—(Mr. *Wilkins.*) Certainly.

Mr. *Higham.*

177. Shall we know how much they owe for furniture and how much is owing to them for furniture? We would need to know both items to know the correct bookkeeping; we should know both the debit and the credit?—Yes.

Sir *Charles Henry.*

178. On page 56 there is an item of £16,000 odd for the provision of accommodation for the Commission Internationale de Ravitaillement; that was for our Allies?—(Sir *Lionel Earle.*) A lot of them.

179. Are we bearing the expenses?—We are for the moment, but whether it is to be recoverable or not, I do not know.

180. The Russians were also accommodated there?—Yes, they were, and the Roumanians.

181. I see that there were some very substantial items for accommodation in the different hotels you have taken over. They were very costly, according to the requirements of the Public Service?—Yes, I should think they were costly. If you take the Gordon Hotels, for instance, in Northumberland Avenue, we have worked out the cost, and on more than one occasion the cost

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 10.—Public Buildings, Great Britain—*continued.*

Sir *Charles Henry*—continued.

cost per foot per man per annum, certainly of some of the hotel accommodation, is costly.

182. The Hotel Cecil cost you nearly £24,000?—Yes, but, of course, the furniture alone in a place of that sort is considerable.

183. Is this not irrespective of the furniture?—No, this includes the furniture.

Chairman.

184. Turning to the Report of the Comptroller and Auditor-General, on page 65, I understand, Sir Lionel, you want to say something more about this?—I wanted to explain to the Committee that the classes of this contract chiefly affected are, first, purchases of small stores from merchants' stocks—*e.g.*, cutlery; secondly, purchases of fittings on the basis of previous contracts, such as lavatory basins, sinks, wire goods, etc.; and, thirdly, the renewal and maintenance of contracts for jobbing works on the same or increased terms without competition. In all cases of purchases of goods without competition, or purchase under expired contracts, the Board's officers are in a position to ascertain that the prices charged are reasonable, and where it has been necessary to place orders under old contracts at increased prices, here again the Board's officers have ascertained if the articles could not be more cheaply obtained elsewhere, or that delivery could not be promised within the time stipulated. I may say that the contractors are very reluctant to tender now at comparative prices for periodical contracts, because the prices of material are constantly rising.

Sir *Charles Henry.*

185. You do not do much work now on time and line?—Not if I can avoid it. We have done some cases for the Munitions Department, acting as agents for them where it was not possible to make a contract except on that principle, but I personally have opposed time and line, and cost plus percentage of profit in every case where I could. We have not had a single case in Scotland, and there have only been comparatively few cases in the whole of England.

186. You did some work at Woolwich on the time and line principle?—That was the old housing scheme.

187. You are not offering that at all now?—No, I hate the whole system.

CLASS II.

ON VOTE 26.

OFFICE OF WORKS AND PUBLIC BUILDINGS.

Chairman.

188. (To Sir *Lionel Earle.*) With regard to the last item but one on page 146, "Hertford British Hospital, Paris," you hold £141,000 of stock; do you simply hold it as Trustees, and do you pay the interest over to the Hertford Hospital?—That is so.

189. Is that specifically left to you, or why has it not gone to the Public Trustee. One would think he would be the proper person to hold a Trusteeship of

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 23.—Office of Works and Public Buildings—*continued.*

Chairman—continued.

that sort?—The Office of Works were Trustees, and it has never been changed.

190. It was left in your charge?—Yes.

HOUSING ACT, 1914.

Chairman.

191. (To Sir *Lionel Earle.*) Referring to paragraph 3 of the Report of the Comptroller and Auditor-General on page 4 of the White Paper, that has nothing to do with you at all, Sir Lionel?—Nothing.

192. Turning to the Vote on page 3, is that £821,000 the total cost of the Woolwich Housing Scheme?—There is a very slight amount more; that is practically the total.

Sir *Charles Henry.*

193. How does it compare with the original estimate?—There was no estimate. I think there was a rough estimate prepared for a certain number of houses, but not for the whole thing.

194. Who gets the rents of these houses?—We do.

195. That is an Appropriation-in-Aid?—That is so.

PUBLIC OFFICES, SITES, AND PUBLIC BUILDINGS EXPENSES.

No questions.

(Sir Lionel Earle and Mr. Buchanan withdrew.)

CLASS I.

ON VOTE 11.

SURVEYS OF THE UNITED KINGDOM.

Sir *Charles Henry.*

196. This Vote is borne by the Treasury, is it not, or who is it borne by?—(Sir *Sydney Olivier.*) The Board of Agriculture. (Mr. *Wilkins.*) The estimate is, of course, submitted to the Treasury for approval?

197. My point is answered by being told that it is the Board of Agriculture, but perhaps Sir Sydney would tell us why that is when that is absolutely a charge for the War Office?—(Sir *Sydney Olivier.*) The establishment was borne on the Board of Agriculture Vote, and the Treasury thought that although the Board was not requiring the surveys it should bear its ordinary charges and anything added owing to the war was charged on the Vote of that Department. That is the general principle, and they followed that in this case.

198. Do you agree to that, Mr. Wilkins? Here is a substantial amount, entirely a War Office matter; do you agree it should come on this Vote?—(Mr. *Wilkins.*) I do not see any very strong reason to the contrary. (Sir *Sydney Olivier.*) It could have been transferred to the War Office by a debit to them. (Mr. *Wilkins.*) I think probably if the Honourable Member looks at the statement of services rendered at the beginning of the Army Estimates he will find some mention is made of those surveys there.

199. But it is not included in the amount expended by the War Office?—No.

Mr. ALEXANDER BARNES, I.S.O., called in; and Examined.

ON VOTE 12.

HARBOURS UNDER THE BOARD OF TRADE.

No questions.

CLASS II.

ON VOTE 8.

BOARD OF TRADE.

Chairman.

200. If the Committee would kindly turn to page 100 they will find the Board of Trade Vote for which Mr. Barnes also answers. The Report of the Comptroller and Auditor-General is on page 104. Referring to the first paragraph of the Report, I presume, Mr. Wilkins, that the Treasury have satisfied themselves that

Chairman—continued.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 8.—Board of Trade—*continued.*

Chairman—continued.

that those assets were really irrecoverable?—(Mr. *Wilkins.*) Yes; that is quite a usual item, and the Treasury have examined it.

201. It may be very usual, but the Treasury have satisfied themselves that they are irrecoverable; they do not merely take the statement, although, of course, Mr. Barnes would not make an inaccurate statement?—That is so.

Sir *Charles Henry.*

202. On page 102 there is an item of £16,000 for War Risks Insurance Office. Is that the salaries of that office?—(*Mr. Barnes.*) Yes.

203. Including the salaries of the underwriters?—They are not paid.

204. The result of that War Risk Insurance, I suppose, is dealt with by the Vote of Credit?—Yes; this is only the cost of administration.

205. If it is the cost of administration, why is not that dealt with in taking the result of the war risks as a whole? Ought that not to be dealt with as expenses?—It will be taken into account, and it is borne in mind. Our instructions are to charge the Vote with the expenses of the office.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 8.—Board of Trade—*continued.*

Sir *Charles Henry*—continued.

206. If you charge this Vote with the expenses of the office you cannot afterwards charge the account, can you? You cannot charge it twice?—If it were desired, it could be adjusted; if there were a balance on the War Risks Insurance the amount could be transferred, if it were thought desirable, to the Appropriation-in-Aid of the Board of Trade Vote.

207. You do not anticipate a credit balance on the War Risks Insurance?—Hardly.

Chairman.

208. On page 102, you had to take a Supplementary Estimate of £41,709?—Yes.

209. But, even so, you spent more than that amount. Ought you not to have taken a larger Supplementary Estimate?—In providing for normal expenditure there was no excess; the excess shown on the Board of Trade Vote is met out of the Vote of Credit. That is war expenditure.

ON VOTE 9.

MERCANTILE MARINE SERVICES.

No questions.

(Mr. Barnes withdrew.)

ON VOTE 1.

HOUSE OF LORDS OFFICES.

No questions.

ON VOTE 2.

HOUSE OF COMMONS.

Mr. HENRY AUGUSTUS FERGUSON-DAVIE, called in; and Examined.

Mr. Blair.

210. Referring to Sub-head A, I think we generally get the number of Members who have declined their salaries. Have you any statement to make?—(Mr. *Ferguson-Davie.*) It varies from time to time. At the present moment there are 508 who receive salaries and 96 relinquish, of whom 81 relinquish for the duration of the war; and 58 are paid as Ministers. There are only 508 paid at the present moment.

211. Do you find that officers who have declined their salaries when they were drawing Army pay have now asked to be put on the House of Commons pay?—Some have.

Chairman.

212. You mean when they come back?—Some.

Sir *Charles Henry.*

213. They can draw both, can they not?—Yes.

Mr. Haslam.

214. Can they draw both when they are acting as Members of Parliament and not doing any service at all?—Certainly, if you mean being in the Service.

215. No, I mean supposing they have been to the Front and served for some time, and then, owing to some cause or other, having been invalided, or something of the kind, they resume their ordinary duties as Members of Parliament, in such case do they draw both their salaries as Members of Parliament and as officers?—If they like to.

Sir Henry Craik.

216. So long as they are on the nominal strength of the regiment to which they belong?—I do not know how they are paid by the Army, but there is nothing to disqualify them being paid by us.

217. They may draw their Army pay as long as they are on the strength of the Army Establishment?—I should say so, certainly.

Chairman.

218. You do not know whether they do or not?—No.

Mr. Blair.

219. Do they not all apply to get on to the Reserve?—I cannot possibly say that.

Mr. Higham.

220. What is the grant to the Refreshment Committee for this current year?—By the Estimate it was £1,000 allowance for servants' wages and £300 for refreshment plant. The Treasury suggested it should be half the amount it had been in previous years, but the Kitchen Committee found they could not make it pay, so they obtained Treasury sanction to spend up to £1,250 for the servants' wages instead of £1,000, and £600 for the refreshment plant, as against £300. That made £550 extra.

221. The item servants' wages includes the waiters and waitresses?—Yes.

(Mr. Ferguson-Davie withdrew.)

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

ON VOTE 4.

HOME OFFICE.

Mr. MALCOLM DELEVINGNE, C.B., called in; and Examined.

Chairman.

222. On page 93 there is a dagger sub-head, "Expenses." What was that for?—A conference of the representatives of the mining industry. It was a conference held in London, which was addressed by the Home Secretary and the Prime Minister, with a view to increasing the national output of coal and reducing absenteeism.

223. They got their fares paid?—The fares were paid by the Treasury; the men paid their own subsistence expenses.

224. They paid for their own food and lodgings, but the fares were paid by the Treasury?—Yes.

Sir *Hildred Carlile.*

225. How does it amount to such a large sum?—It was a very large conference indeed, and they were brought up from all parts of the country.

226. Have you any record as to the number of persons taking part in it?—We have it, but I am not prepared with it now. (Mr. *Wilkins.*) They were third class fares.

CLASS III.

ON VOTE 7.

POLICE, ENGLAND AND WALES.

Chairman.

227. I think the question of the Glamorgan Police was waived altogether?—(Mr. *Delevingne.*) It was settled last year. (Mr. *Wilkins.*) I, perhaps, ought to mention with reference to the Treasury Minute that we wrote to the Home Office, and asked for an expression of Sir George Cave's opinion as to the possibility of re-introducing the expenses of Aid to Police Bill, and the Home Office said that was not practical at the moment. That is on page 3 of the Treasury Minute, paragraph 5, under the cross heading paragraph 8.

228. It is on page 2 of the copy we have; that was the answer, was it, Mr. Delevingne?—(Mr. *Delevingne.*) Yes. The Report of this Committee was communicated to the Home Office by the Treasury, and was laid before Sir George Cave, and Sir George Cave decided that in the present circumstances it was quite impracticable to introduce that Bill.

229. It was too contentious a Bill?—Very much so.

Mr. *Haslam.*

230. Referring to Sub-head B, on page 203, I see the grant is £100,000 towards the expenses of the Metropolitan Police; is that a regular annual grant of the same amount?—Yes, it is a regular annual grant in respect of the Imperial Services rendered by the Metropolitan Police.

231. Irrespective of the amount of services rendered?—Yes, a fixed amount.

Mr. *Higham.*

232. There is an item of extra remuneration at the bottom of the same page: "One of the Inspectors of Constabulary (£850) is in receipt of a pension of £700 per annum, paid by the City of Liverpool." Has this Inspector held his office long?—I am told that he has held his present office for nearly seven years.

233. Is it usual to have a duplicate salary and pension of such large amount?—He is a pensioned officer of the Liverpool Police Force whom the Home Secretary has appointed as an Inspector of Constabulary. We have nothing to do with his Liverpool pension.*

234. I suppose the Imperial Exchequer pays a part of his pension for Liverpool as well? There is a fixed sum voted by the Exchequer out of which pensions are paid, or which helps towards pensions, I should say?—Yes, I suppose that is so, but only to a very small extent.

235. It would strike one that if there was any official capable of holding such a responsible position the body employing him originally would not want to pension him off?—The Inspector is a very distinguished official indeed, who retired from the Liverpool Police Force on completing his years of service, and he was then appointed Inspector of Constabulary.

Sir *Charles Henry.*

236. Could you tell the Committee what has been the increase in the pay of the Metropolitan Police since the war? I am talking of the rank and file of the Constables?—I am not prepared with the information, but I will send the Committee a note, if they desire it.†

Chairman.

237. The Government have not increased their contribution of £100,000 because of it?—No.

Sir *Charles Henry.*

238. Have they had any application to increase it?—No, but the war conditions cut both days; in some respects the Imperial duties of the Metropolitan Police Force have been reduced as the result of the war, and as the Hon. Member says, the cost of the police has been increased.

239. Could you state the reduction in the number of the Metropolitan Police since the war began?—There has been a very considerable reduction.

240. Could you tell how far the number has gone down?—I am told about 6,000 out of a total of 23,000.

ON VOTE 9.

REFORMATORY AND INDUSTRIAL SCHOOLS, GREAT BRITAIN.

Sir *Hildred Carlile.*

241. Has there been any large accession of numbers in our Reformatory Schools?—No large accession, I think, in the year under review. You notice the charges under Sub-head D were only very slightly increased.

(*Mr. Delevingne withdrew.*)

CLASS II.

ON VOTE 7.

PRIVY COUNCIL OFFICE.

No questions.

(*The witnesses withdrew.*)

* Sec. 13 of the Police Act, 1890, lays down the rule that if a pensioned police officer is appointed to an office remunerated out of money provided by Parliament, his pension while he holds the office, together with the salary of the office, is not to exceed one and a half times the remuneration of the office in respect of which he was pensioned. The salary of this inspector when Chief Constable of Liverpool was £1,500.

† In August, 1914, the *pay* of all ranks was increased by 2s., 4s., or 5s. a week, according to length of service. (This had been decided on before the war.)

A *general bonus* of 12s. a week has been granted to all ranks up to and including superintendents, and a *children's bonus* of 2s. 6d. for each child under 15 living at home and not in any paid employment to married constables and sergeants.

Thursday, 14th March 1918.

MEMBERS PRESENT:

Mr. Baldwin.
Mr. Blair.
Sir Hildred Carlile.
Sir Henry Craik.
Mr. Haslam.
Sir Charles Henry.
Mr. Higham.
Mr. Leif Jones.
Sir Robert Williams.
Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir SYDNEY OLIVIER, K.C.M.G., C.B., and Mr. ROLAND WILKINS, C.B., called in; and Examined.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-1917.

CLASS II.

ON VOTE 17.

LOCAL GOVERNMENT BOARD.

Sir WALTER JERRED, K.C.B., called in; and Examined.

Mr. *Higham.*

242. (To Sir *Walter Jerred.*) Referring to sub-head B on page 127, "Law Charges, Special Inquiries and Services, etc.," there is an excess of over £2,600, and the explanation given in the note is war refugees; but surely the war refugees might have been foreseen, as they were there at the beginning of the financial year?—Yes. The greater part of that excess is due to expenditure on some of the staff employed at Aldwych, and that amount is borne under this sub-head by direction of the Treasury.

243. What was the work at Aldwych?—In connection with the War Refugees' Committee.

244. Not, surely, the expenses of Committees?—No; the bulk of the £2,600, amounting to some £1,800, is due to the expenditure on staff supplied partly by the Local Government Board in connection with the Committee, which is borne on this sub-head instead of out of the Vote of Credit. (Mr. *Wilkins.*) It is a war expenditure borne on the Vote of Credit; if the honourable member will turn to the note on page 128 he will see the explanation.

245. I have read the note?—It is the note immediately below the figures.

246. It was reading the note which made me think that it might have been foreseen at the beginning of the year?—It is not normal expenditure; it is war expenditure.

Sir *Charles Henry.*

247. With regard to sub-head X on page 128, could you tell us, Sir Walter, the different categories to which the Local Government Board makes a grant for child welfare?—(Sir *Walter Jerred.*) I can give you some of the headings of expenditure: Salaries and Expenses of Inspectors of Midwives, Expenses Connected with Health Visitors, Nurses Engaged in Maternity and Child Welfare Work, Provision of Doctors in Certain Cases, and so on.

248. Have they given any grants to crèches or children's nurseries?—Yes, that would come under the expenses for a health centre, medical supervision and advice. I think the crèches would come under that sub-head.

249. Are these grants all direct to these associations or to the local authorities?—To both; the greater part of the expenditure goes to the local authorities.

250. Do applications come from local authorities?—Yes; of the £60,000, about £40,000 would go to local authorities and about £20,000 to voluntary agencies.

251. As to the grants you give to voluntary agencies, have you any supervision over their work at all?—Certainly; it is only where the Board have examined the arrangements provided and have approved that they make grants. The work is entirely carried on under the sanction of the Board.

Sir *Hildred Carlile.*

252. I should like to ask whether the progress could not have been foreseen. Seeing that there is a very large excess on this sub-head X, why was not the progress anticipated at the right speed? You say that it was very rapid?—I think, as a matter of fact, that it was not expected that we would expend even the £50,000, but, of course, public interest in this matter has quickened very much recently. I do not think we could fairly have foreseen how rapidly it would grow.

253. That is the chief ground, and it is a very satisfactory ground, of course?—Quite.

Sir *Charles Henry.*

254. As to this £63,000 for National Registration under Sub-head X1, was that the initial work of the National Registration?—No, that was the cost of the maintenance of the Register.

255. Was the National Register kept up—has it been kept up?—Certainly.

256. Is it not the fact that new powers have been taken by the Local Government Board to bring the Register up to date?—Some new powers have been taken, but this was the ordinary maintenance for this year.

257. The National Register was completed about the end of 1915 or the beginning of 1916?—Yes.

258. It was kept up then, and this amount was expended during 1916, after it had been compiled?—Certainly; it is kept up to the present date.

259. Why did Parliament have to give further powers to keep it up?—Not to keep it up but to extend its operations to certain classes not previously included in the Act.

Mr. *Higham.*

260. Those who became of age in the interim?—Yes. (Mr. *Wilkins.*) The honourable member will see that part of this was for compilation.

Mr. *Leif Jones.*

261. I understand that this is for the maintenance of the National Register?—(Sir *Walter Jerred.*) Yes.

262. Why was it not in the Estimates?—It is not a normal service; is not that the answer? (Mr. *Wilkins.*) The whole of the expenses were not paid in 1916; only £30,000 odd was paid in that year, and the remainder was paid in the period the Committee are now examining.

263. Sir Walter says it was for the maintenance of the Register, and the making of the Register was in the previous year. I understand the £63,000 is the cost of maintaining the Register, and if there was to be expenditure upon the maintaining of the Register, why was not it put in the Estimates for 1917-18?—I ventured to explain just now that this included compilation as well as maintenance.

264. What did the maintenance amount to?—(Sir *Walter Jerred.*) Mr. Wilkins reminds me that some portion of this was for the compilation. I think the payments did not come in as a matter of fact until this financial year.

265. Supposing half of it was maintenance?—It may have been £20,000.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 17.—Local Government Board—*continued.*

Mr. *Leif Jones*—continued.

266. With an item of £40,000 for maintenance it must have been a foreseeable item?—The National Register drops with the war, and if the war had ended there would have been no further expenditure.

267. The heading is here?—(Mr. *Wilkins.*) The short answer to the right honourable gentleman is that this was a war service.

268. I cannot accept that answer; if I may say so, that is the Treasury answer on this point all the time. Here is a service going to be performed in the year 1916-17; you know you are to make expenditure upon it, you have the sub-head in your Estimate, and still you do not put any sum down against that, although the amount of money spent is within your own knowledge. What is the motive for suppressing it?—On previous occasions the right honourable gentleman has complained that the Vote of Credit did not show all the charges connected with the war.

269. If you put it in the Estimate it would not have been in the Vote of Credit; that is my point, for what it is worth?—Precisely; but the consistent principle in which the Estimates have been framed has been to exclude War Services, and to provide only for normal services.

270. That will not quite do, because why put in the normal sub-heads of the Vote if that is so?—That is the procedure under the Treasury Minute.

271. That is the Treasury Minute of 1914?—The original Treasury Minute.

272. Do you not think it is about time that you revised that Minute? Is that expenditure going on this year?—(Sir *Walter Jerred.*) Yes.

273. What are you keeping up the Register for? Is it of any value for any purpose?—I believe it has been of great value.

274. To you in the Local Government Board?—No.

275. Then to whom?—It was wanted, of course, for the purposes of the Military Service Acts.

276. Were not we told that it was of no value for

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 17.—Local Government Board—*continued.*

Mr. *Leif Jones*—continued.

that, and that a new one had to be made up? Is not a new one in process of being made?—In answer to Sir Charles Henry, I said that no new Register is being made now at all; the Bill recently passed had in view bringing into the National Register certain classes not previously included in the Act; for instance, children attaining the age of 15 years, and a number of men who were in the forces and who had been discharged out and who had not been registered. The National Service Department was very anxious that these classes should be included, and I believe they use this Register very much indeed.

277. What makes you think so?—Because they have informed us to that effect. (Mr. *Wilkins.*) I was asked the other day to produce my registration card at the Treasury.

Sir *Charles Henry.*

278. In the Estimates of 1918-1919 are you bringing in any Estimate for this keeping up of the National Register?—(Sir *Walter Jerred.*) No, for the reason mentioned by Mr. Wilkins; being a War Service, we do not include it in our Estimate. It is in fact paid through our account and ultimately recouped from the Vote of Credit.

279. You took from the Vote of Credit £72,000, and £63,000 was accounted for by the National Registration. Where did the balance of £9,000 go?—If you will look at the first note at the end of the account, in the middle of page 128, you will see that a net expenditure of at least £73,000 has been identified as directly arising out of the existence of a state of war. That includes the £63,000 in the last item there, and there are various other items.

280. They are not specified?—Yes.

281. That avoids bringing in a Supplementary Estimate?—That is so.

(*Sir Walter Jerred withdrew.*)

ON VOTE 5.

FOREIGN OFFICE.

Mr. J. A. C. TILLEY, C.B., called in; and Examined.

Sir *Charles Henry.*

282. (To Mr. *Tilley.*) With regard to sub-head A, there is a very big increase in the salaries as compared with the Estimate with regard to War Services. Can you tell the Committee what the number employed by the Foreign Office at the end of the financial year was as compared with the beginning?—The number at the present time——

283. I do not want that; I am talking of the end of March, 1917, as compared with the end of March, 1916?—At the end of March, 1917, we had just over 500; I have not the exact figures here.

284. That is the year under review?—Yes. Perhaps I ought to say that the normal staff of the Foreign Office at the beginning of the war was about 130, and the staff employed in the Foreign Office building itself is just over 500 now.

285. I suppose this includes your outside Departments as well now?—No, that only includes the Foreign Office—not the Ministry of Blockade.

Chairman.

286. Where does the Ministry of Blockade come in?—In the Vote of Credit.

Sir *Charles Henry.*

287. It is the salaries of all the personnel inside the Foreign Office building?—Yes.

288. And they have increased by 370 in the year under review?—The number, do you mean?

289. Yes?—No, they have not increased by that number during the year under review; that is the excess over the normal number.

290. My point is that I want to know how many more gentlemen were employed to account for this £36,000 increase?—The £36,000 increase is the increase over

Sir *Charles Henry*—continued.

the normal peace staff; it is not the increase over the whole of the staff employed in the previous financial year.

291. Can you say how many gentlemen or ladies it represents additionally employed?—It represents something like 400. It does not represent 400 more than in the year 1915-16.

292. What I want to arrive at is the difference between the estimate of £63,000 and the expenditure of £99,000; I want to know for that difference of £36,000 how many extra people were being employed?—The estimate of £63,000 is the normal peace estimate, not the estimate for the previous year, because we stick to the peace estimate. This excess is due to War Service.

293. You still work on your Peace Service even at the present date?—Yes.

294. You do not estimate on what you have spent for the year just concluded?—No.

Mr. *Leif Jones.*

295. Does it not come to this—that you are not estimating at all for your present expenditure; you are just taking an old figure?—Yes.

296. That is the peace figure?—Yes.

297. And whatever we spend more than that is war expenditure?—Yes, that is War Service.

298. That is a very—what shall I say?—fictitious account; without any war at all the Foreign Office might have increased. It is no longer an estimate of Foreign Office service at all; it is a statement of what it was in the past?—Yes.

299. Does that commend itself to you as an Accounting Officer?—Well, the principle, I understand, on which we were told to do this was that you could not tell at the beginning of any year whether the war would

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 5.—Foreign Office—*continued.*

Mr. *Leif Jones*—continued.

would continue or whether the staff would be required during the whole year.

300. You can tell better by taking 1916 what the staff is likely to be than by taking a past estimate of 1913?—Yes; we were merely carrying out instructions.

301. You could as a matter of fact have made a very near estimate to this £99,000, I should think?—There was not as a matter of fact very much variation between these two years; after a certain period the Staff of the Foreign Office did not increase very considerably. It has decreased a little now.

302. The war had already been going on two years when you made this estimate?—Yes.

303. So that you had reached a knowledge of what were likely to be your requirements?—Yes, there was no big increase.

304. You see no difficulty in putting in an estimate of your probable expenditure for the year in that year?—No.

305. If I ask you now what you were going to spend in 1918-19, you could tell me, could you not?—I have made a small reduction on last year.

306. What have you, as a matter of fact, put in the Estimates for this year—£63,000?—£63,000.

307. What is the value of that to the House?—I do not suppose it is any.

308. Is it of any value to anybody?—I do not know that it is.

309. You are Accounting Officer, do you not think you might suggest to the Treasury that they should revise the instructions under which you are furnishing these misleading estimates?—Yes, I quite agree.

Mr. *Haslam.*

310. Under Sub-head A will you tell me what proportion is for salaries and wages, and what proportion for allowances?—I am afraid I have not got that information.

311. I suppose in a general way you can say what the proportion is?—The extra allowances are about £3,000—£2,500.

312. Does that mean overtime?—Those are allowances to private secretaries, translators, resident clerks and so on.

313. Items such as travelling expenses or overtime or what is it?—No. (Mr. *Wilkins.*) You will find particulars of extra remuneration on page 96 at the top.

314. If it is under the head of Remuneration, that meets my point; I did not exactly know what it meant.

Chairman.

315. It does not mean actual remuneration, does it, Mr. Tilley?—Perhaps I might explain that in all the principal Departments of State, private secretaries get additional allowances for their private secretarial work, the resident clerks in the Foreign Office get allowances, and so on.

Mr. *Haslam.*

316. It is not a very large proportion, only £2,500 out of the total?—(Mr. *Tilley.*) The figures are all set out in the Estimates for the current year.

Mr. *Blair.*

317. With regard to the Sub-head E, "Appropriations-in-Aid (passport fees)" I see you have realised a surplus. Does that mean that the prices have been put up or that there has been any alteration?—It was put up from half-a-crown to 5s. in 1915; the further increase was due to the increase in the number of passports.

318. The price has not been increased?—Not again.

Mr. *Higham.*

319. In that item then, although the price was increased from half-a-crown to 5s., you estimated that the sum to be produced would not be altered; you still kept to the pre-war figure there?—No, the increase in the price was before this financial year.

320. Is this £5,000 an estimate at the pre-war

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 5.—Foreign Office—*continued.*

Mr. *Higham*—continued.

amount, as in the other case?—No, the estimates have been increased for the passports.

321. Under which of these Sub-heads come the Telegraphic or Cable expenses of the Foreign Office?—I think you will find them on page 285.

Sir *Charles Henry.*

322. May I ask Mr. Wilkins a question arising upon the evidence which has been given? Do you agree with the policy pursued as regards estimating on a pre-war basis, knowing that the expenditure will be considerably more?—(Mr. *Wilkins.*) I think so. The right honourable gentleman who has now left the room was criticising the present system, but I was not very clear as to whether he was virtually suggesting that there was some other alternative which would be preferable.

323. Might I ask your opinion with regard to estimating on what is likely to be the expenditure as opposed to what was the expenditure in 1913-14?—Then you lose the advantage of showing clearly in the Appropriation Accounts the amount attributable to the state of war in the Vote of Credit. That is a substantial gain which you get under the existing system. Let me take this case: On Sub-head A of the Foreign Office Vote the normal expenditure is put at, £63,000, and the actual expenditure is £99,000, and the fact that Parliament does deduce from that is that the expenditure attributable to the war was about £36,000. I have always understood from the questions of this Committee that Members were rather anxious that the Vote of Cedit should approximate as closely as possible to the actual cost of the war, and if that be their feeling I would point out that that result is attained under this system. (Sir *Hildred Carlile.*) On that may I ask a question. What would prevent a note being attached to the Vote in question which would give the details to which you refer? The mere fact of our wanting to know how much of it is war expenditure does not prevent the Department in question from making a real and sound forecast of the probable expenditure. It is not necessary to give us figures which are absolutely and totally worthless in order that we may deduce something else from some other group of figures. Would it not be perfectly simple to give us either a note in the body of the Vote or attached to the Vote, showing how much of it is due to the war. We have got it now, but we have got it at the expense of having to rely upon absolutely unreliable figures. As my right honourable friend pointed out a moment ago, it seems to me that that explanation, Mr. Wilkins, really is not one which is sufficient, it is an explanation, but it is not really either a satisfactory or a sufficient reply to the criticism of my right honourable friend or the other Members of the Committee.

Sir *Henry Craik.*

324. On the other hand, if you took any other course and made an Estimate of this sort you would need to forecast very decidedly what, in your opinion, was likely to be the continuance of the war?—That is so.

325. You would need to hazard a very difficult prophecy with regard to what might be (I am asking a question) the continued position of this country during the coming financial year?—(Mr. *Tilley.*) I should asume that the war was going on.

326. You would have to do that if you made that assumption; just answer the question?—Yes.

327. You would have to make that assumption before you made any estimate?—Yes.

328. That would be a very dangerous and difficult process for any Government Department to undertake; is it not so?—We should naturally, I think——

329. I only ask, is it dangerous? Do attend to the question and answer it: Is it not a dangerous process of calculation for any public Department to undertake?—Certainly, it would be dangerous to calculate it in that way.

330. You agree, then; and you could not make anything like an approximate estimate without making such a calculation?—No, I think you could only assume that the war was going to continue; I think that it would

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 5.—Foreign Office—*continued.*

Sir *Henry Craik*—continued.

would be impossible to calculate that the war would be over in so many months.

331. And you could not know the extent of the new operations of war or the further chance that there might be a greatly increased expenditure. You have assumed the position that your duty is to give an estimate upon the basis of peace, and to show us by contrast the increased expenditure, so as to show to us what is involved in the continuance of the war; that is your object, is it not?—Yes.

332. And I might ask Mr. Wilkins that is the object of the Treasury in giving these instructions?—(Mr. *Wilkins.*) That is so; and I have been cross-examined somewhat closely here on previous occasions on the ground that possibly the Vote of Credit did not represent the cost of the war with sufficient fulness.

333. I confess I entirely agree with the instructions of the Treasury.

Mr. *Leif Jones.*

334. I would like to ask a question or two further: If, in making your estimate, you made it as closely as you could to correspond with what you think will be the expenditure on the basis of the war continuing, it would be within your power at the same time to say how much of it would be due to the war?—(Mr. *Tilley.*) Yes.

335. So that at the end, in order to arrive at what would be the normal expenditure, you would only have to deduct the amount you had added on account of the war to reach a similar figure to what you have got now. If you have added an estimated amount for the war, you deduct the same estimated amount from the total and reach the normal figure?—We could say that we estimate £100,000, £40,000 of which would be due to the continuation of the war.

336. So that Sir Henry Craik's criticism on that would seem to disappear. He says that there would be an uncertain amount added for the war; quite true, but the same amount, and no other, would be deducted at the end, and therefore the remaining figure would be a certain amount, although there had been an estimated quantity added for the services of the war; so that from that point of view there would be no difference. Would not the difference be this, that, instead of an entirely false figure being put down, as you yourself admitted, of £63,000 here under Sub-head A, there would be such an estimate as the officials of the Department are able to make of the really probable expenditure during the year, on the hypothesis that the war continues?—Yes, we must estimate that the war will continue.

337. Would not that be really a nearer estimate to the truth than the present figure, which really has no relation to facts at all?—Yes, I think that would be so. We should merely say at the end of the year that we had anticipated that we should spend £40,000, and we had only spent £25,000.

338. There would be no criticism of the accounts at the end if we over-estimated, because the war was going on and it came to an end.

Sir *Henry Craik.*

339. I understand that you withdraw the opinion you gave to me in favour of the estimate, because you answered my question by saying that you thought the instructions of the Treasury were justified and good, whereas now, in answer to Mr. Leif Jones, you have said exactly the opposite?—I do not think that I said that; I think your question was whether I considered it would be a dangerous thing for the Foreign Office to estimate when the end of the war would come.

340. And you said yes?—I could only say that.

341. My question was not quite that; my question was, would it not be dangerous for you to form an estimate which must be based upon a calculation of how long the war continued, and you said, yes, you thought it would be dangerous to form an estimate on that basis?—If I am obliged to base it on an estimate of the number of months the war would continue.

Mr. *Leif Jones.*

342. Have you anything more to say on the point, Mr. Wilkins?—(Mr. *Wilkins.*) I was only going to point out that, in addition to the doubt about the duration of the war, one cannot say even nowadays that the services have quite settled down. There must be a certain number of quite unforeseen services which would disturb any estimate that could possibly be framed. The other point I wished to mention was that the total of the Vote of Credit or a total which excites a good deal of public interest, and if that were artificially diminished by the means the Right Honourable Member suggests there might be some objection to it.

343. That is not a necessary result; you can deduct what you may call the War Estimate from the end of your estimate and put that on to the Vote of Credit, if you like.

Chairman.

344. I would like to say one more word about this: Your statement is that Sub-head A, as it stands at present, shows an amount of £36,000 more than granted, and that is the amount——?—Attributable to the war.

345. But ten lines lower down you tell us that the amount due to the war is £37,284. Therefore, you have given us the items which were applicable to the state of war, which therefore come out of the Vote of Credit, but that does not affect the question of whether it is more fair to the Chancellor of the Exchequer or anybody else to estimate really the amount that you are going to spend. That is the real point.

Mr. *Haslam.*] Is not the real point this: that it is very difficult to estimate what the expenses may be of any particular year during war time, and we have here very distinctly stated, I think, the amount that is spent in normal times on those services, and, on the other hand, the extra amount which represents the amount due to the war.

Chairman.] This is not a statement, it is an estimate of what we are going to spend. I think perhaps we have had enough questions on this point.

Mr. *Baldwin.*

346. In view of what has been said by one or two members of this Committee, Mr. Wilkins, I think in two or three questions I might be able to get some useful information from you. I take it that in accounting matters it is of very great importance, when you are preparing accounts on the scale of the national accounts, that we should have a uniform system?—Certainly.

347. Am I right in this—that if we were to proceed as my Right Honourable friend here suggests in the case of the Foreign Office, we could not maintain a uniform system in view of the fact that throughout the whole period of the war we have been engaged in the creation of new Departments, and that as the new Departments have been put down in the Estimates as Token Votes it would be an impossibility, as the Honourable Member here suggested, to prepare any Estimate that could possibly hold water? No Estimate could be made of the new services. The time for the creation of new services may not be past yet, and had we in cases like the Foreign Office adopted the suggestion of my Right Honourable friend here, we should have had one system with regard to some of the old Departments which are in more or less of a static condition, and we should have had to have adhered to the system we have hitherto maintained with regard to the new Departments: that is so, is it not?—That is so.

348. The system that is adopted, and that we have been working since the war began, was adopted primarily as being the simplest method of accounting that could be devised for segregating war expenditure?—Yes.

349. And if any change were to be made at this date, after three and a half years of war, I think, as one who has had some practical experience of accounting, we should throw the whole scheme of accounting into inextricable confusion; do you agree?—The student of public affairs in future would be faced by the fact that one system had been adopted up to the present date, and another system after that date. That is the kind of change which on general grounds it is very undesirable to make. Continuity is of the first importance.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 5.—Foreign Office—*continued.*

Mr. *Leif Jones.*

350. I only ask one more question: Do you really suggest that any student of financial affairs would take the years 1914, 1915, 1916, 1917, and I do not know how many years to come, for any purpose of comparison with preceding or future years, without noting the fact that the war was going on, and recognising that there was an utter derangement of expenditure during those years?—You have misunderstood my meaning. I was contemplating the hypothesis of a student comparing the period of the war with any other period, and I was pointing out the extreme inconvenience which would be caused by a break of continuity in the middle of that period.

CLASS V.

ON VOTE 1.

DIPLOMATIC AND CONSULAR SERVICES.

Chairman.

351. (To Sir *Sydney Olivier.*) Referring to the second paragraph of the Comptroller and Auditor-General's Report, on page 286, are these outstanding returns in yet?—No more have come in—I have a list of them.

352. There are some outstanding. Referring to paragraph 3 of the Report, Mr. Tilley, I think it was in 1914 that, in consequence of a great loss at Valparaiso, this Committee recommended that there should be a system of inspection of Consular balances?—(Mr. *Tilley.*) Yes.

353. And this loss in Antwerp occurred in that same year, 1914?—It occurred just after the outbreak of war.

354. Or rather you found it out just after the outbreak of war?—We found it out when the British Consul left Antwerp.

355. Had the recommendation of the Public Accounts Committee with regard to the inspection of these accounts taken any effect by that time?—There is an Inspecting Officer for France and Belgium, who had made a considerable number of inspections, but he did not inspect Antwerp, and the idea was to leave it until about the last. We had a very experienced Consul-General there, and it was thought that our inspector might do the other inspections first.

356. So that he was going round?—He would have gone to Antwerp in course of time.

357. Have you found out any irregularities in your Consular accounts in consequence of the inspection operations?—No. We have had four inspectors during most of the war, but the number of the inspectors has not been completed yet for other countries. I do not think any inspector has discovered any irregularities.

358. Was this a very bad case at Antwerp?—About £1,200.

359. Was it an ingenious fraud, or what?—It was merely that there ought to have been £1,200 in the Consular safe and the money was not there; the Vice-Consul, who had charge of the safe, left Antwerp a few days before the Consul-General left, taking the key of the safe with him.

360. Have you caught the Vice-Consul?—One individual was suspected, but it was decided that there was not sufficient evidence to prosecute. The Treasury Solicitor had the facts before him, and he decided that he had not sufficient evidence to go upon.

361. Was it merely robbery of the money, or was it robbery to cover former defalcations?—It was actual cash deposited in the safe to be sent home to the Board of Trade, which simply was not there.

362. And you failed to get any part of it back again?—Yes.

363. You know where the Vice-Consul is?—We know where he is.

364. If you had wanted to prosecute him you could have done so?—Yes.

Mr. *McKinnon Wood.*

365. Were the accounts otherwise correct?—The accounts were quite correct. (Mr. *Wilkins.*) I am rather anxious, if the evidence is going to be published, that the case should not be stated too strongly, and I am not sure that either the word "robbery" or the word "defalcations" could be fully justified. That is a possible explanation of what happened, but we cannot say that that is proved up to the hilt.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 1.—Diplomatic and Consular Services—*continued.*

Mr. *McKinnon Wood*—continued.

Sir *Henry Craik.*

366. When did it take place? Just when the British Consul was leaving Antwerp, when the Germans were approaching.

367. After the war?—Yes.

368. We do not know what accidents or circumstances may have arisen to make this money disappear?—The contents of the safe were removed before the Consul-General left Antwerp. The safe was opened.

Mr. *McKinnon Wood.*

369. Was this Vice-Consul a British subject?—Yes.

Mr. *Haslam.*

370. Was it cash, or securities?—Cash.

Sir *Henry Craik.*

371. Is he now within British jurisdiction?—Yes.

Sir *Charles Henry.*

372. Referring to Sub-head K on page 283, "Special Missions and Services," the expenditure was largely incurred in connection with the Trade Department of His Majesty's Embassy at Washington, and you also state that this was more than covered by the receipts?—Yes.

373. What did the receipts consist of?—The expenditure was on telegrams, and the receipts were the payments for the telegrams. The telegrams were sent by the Trade Department at Washington to this country about the proceedings of different exporting firms in the United States, and each firm on whose behalf a telegram is to be sent is asked to deposit a sum of money to pay for the telegram. As a matter of fact, the receipts from the telegrams somewhat exceeded the actual expenditure on the telegrams.

Mr. *Higham.*

374. In connection with these telegrams, was it customary for the officers to send them in longhand, without any coding or anything—They were coded telegrams.

375. A case came to my knowledge where a telegram was sent to the Consul's office at Shanghai as to the moral stability of an individual there, and a charge was made of 20 sovereigns. If that was typical of all the telegrams that were sent out one can understand about the money being wasted. I do not think "waste" is too strong a word to use about a thing like that?—The money was not paid by His Majesty's Government.

376. But it was money wasted by the Foreign Office, whoever the cost was landed upon. The fact that the Foreign Office charged that amount to a commercial house caused serious feelings all over England. I heard from Manchester, from Bristol, and from Liverpool of similar cases. The particular one to which I have referred was an inquiry sent to Shanghai for a Manchester house, and £27 was the charge for a telegram to inquire as to a man at Shanghai as to whether he was a poor German and what was his character?—I do not know about that particular telegram.

377. Was that the method in which code is never used?—Code is used as a rule.

Chairman.

378. Do you happen to know how many telegrams are covered by all these services on this Vote?—The expenditure is on page 285. £261,000.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 1.—Diplomatic and Consular Services—*continued.*

Mr. *Leif Jones.*

379. In Note (A) on page 287, I see "British share of the expenses of the Bureau of the International Court of Arbitration at the Hague, £789 2s. 8d."; do those expenses go on?—Oh, yes.

CLASS II.

ON VOTE 6.

COLONIAL OFFICE.

MR. HENRY LAMBERT, C.B., and MR. A. E. STEPHENSON, C.M.G., called in; and Examined.

Mr. *Leif Jones.*

381. (To Mr. *Lambert.*) As to Sub-head C, "Emigrants' Information Office," do you have any expenditure in connection with that office now?—Yes, it goes on on a reduced scale. It is kept in existence.

382. I suppose there is practically no work, as there are no emigrants?—There are a certain number of inquiries which go on still.

383. And you keep the office going?—It is kept going on a considerably reduced scale. (Mr. *Wilkins.*) The Committee may be interested on that to know that the Chairman of the Emigrants' Information Office voluntarily relinquished an allowance of £100 a year he was drawing at the beginning of the war. In these days, when everybody is suspecting everybody else of profiteering, it is refreshing to come across a case of that kind, and I think it should be known to the Committee. (Mr. *Lambert.*) He is a member of the Colonial Office staff.

CLASS V.

ON VOTE 2.

COLONIAL SERVICES.

Chairman.

384. (To Sir *Sydney Olivier.*) The Colonial audits continue to be done quite satisfactorily, Sir Sydney?—Quite so, Sir.

Sir *Hildred Carlile.*

385. (To Mr. *Lambert.*) In reference to paragraph 10 of the Comptroller and Auditor-General's Report on page 293, is that industrial relief still going on, may I ask, in St. Helena?—That is being paid off: £1,000 and £400 have been paid off, and that makes the £1,400.

386. And the whole thing comes to an end?—I suppose so.

Mr. *Leif Jones.*

387. Going back to paragraph 5, is there any revenue on the Uganda Railway now—what is the amount of the revenue?—I could not tell you at all; this is on the original capital charge.

388. I want to know what we are getting?—(Mr. *Stephenson.*) There is a very considerable revenue, and it is quite a good percentage on the capital outlay.

389. Could you tell us what the revenue was for the year?—I could not give you definite figures; I am afraid I have not got them with me now, but it is considerable.

390. Is the revenue an actual revenue, or is it an allowance for work done by the Government?—An actual revenue.

391. Is it paying a real interest on the capital?—Yes, not heavy, of course, but it is quite a substantial amount compared to the capital outlay.

Mr. *Haslam.*

392. And also depreciation?—Oh, no.

Mr. *Higham.*

393. With regard to the Grant in Aid, £100,000, there is a paragraph in the Report referring to it; if the revenues are sufficient is it a fact that a substantial part of that comes back each year or does it disappear?—(Mr. *Lambert.*) That is paid over to the Colony, but the grant has come to an end.

394. In the Report there is a reference to a refund of £25,000, and £75,000, and I was wondering whether the same paragraph would apply to this £100,000. The paragraph is in the middle of page 291, beginning "The balance of the grant for 1915-16"?—That £100,000 is not refunded.

395. No part of it?—No.

396. To what grant does that paragraph in the Report refer?—(Sir *Sydney Olivier.*) Perhaps Mr. Stephenson could tell you. (Mr. *Stephenson.*) The explanation is that a part of the grant each year is paid over, but does not appear in the Colony's account until the next financial year. The note there is an explanation of the fact that a certain portion of the amount was not paid over within the Colony's financial year and went into the next financial year—£25,000.

Mr. *Haslam.*

397. When there are reductions made from these grants, are they made from information sent from the Colonies, or are they made from conjecture on this side? I see in nearly all cases the expenditure is exactly the same as the Grant in Aid?—It is the same as the grant; the whole of the grant is paid over.

398. In many cases there is a reduction, but they are mostly small, and I was wondering how it was that in the larger cases reductions have not been made?—(Mr. *Wilkins.*) Only the first four sub-heads are Grants-in-Aid.

399. I had not noticed that.

Mr. *Higham.*

400. There is a Sub-head E, amounting to nearly £320,000, on page 288, for the Uganda Railways. What is that for?—(Mr. *Lambert.*) That is under an Act of Parliament.

401. Is it a sinking fund or real revenue?—It is to pay off the original capital cost.

402. Should it not be under the capital account on page 293? The item does not appear in the capital account?—That is the sum issued out of the Consolidated Fund and the expenditure under the Act. This is the amount of the yearly repayment that is made. (Mr. *Wilkins.*) They are not *in pari materia*; one is the amount of the terminable annuities provided on the Vote in order to repay the capital expenditure; the other account on page 293 is a totally different account of the capital issued and the money expended in certain years.

403. Yes, but the account in the book here is the capital expended in the construction of the railway and stations?—And the annuities provided by the Vote are the annuities to repay that capital sum.

404. They will be accumulating in a separate sum?—They are not accumulating; the money is borrowed from the National Debt Commissioners, and the annuities are paid to them to liquidate this capital sum.

405. If they liquidate this capital sum, this sum must be being reduced every year?—It is.

406. It

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 2.—Colonial Services—*continued.*

Mr. *Higham*—continued.

406. It is not shown in this account as being reduced.

Sir *Charles Henry.*

407. With regard to Sub-head Q, on page 289, "Passages of Governors and other Colonial Officers," why were we called upon to pay the expenses of Mr. Hughes and Mr. Foster to the Paris Conference?—(Mr. *Lambert.*) They were in London at the time, and they went as some of the representatives of His Majesty's Government.

408. Why did not the Board of Trade pay the expenses?—The Board of Trade have nothing to do with the Dominion Prime Ministers.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

ON VOTE 4.

CYPRUS (GRANTS IN AID).

No Questions.

(*Mr. Lambert and Mr. Stephenson withdrew.*)

Mr. J. G. WILLIS, C.B., called.

CLASS II.

ON VOTE 10.

BANKRUPTCY DEPARTMENT OF THE BOARD OF TRADE.

No Questions.

(*Mr. Willis withdrew.*)

ON VOTE 11.

BOARD OF AGRICULTURE AND FISHERIES.

Sir DANIEL HALL, K.C.B., and Mr. F. L. C. FLOUD, called in; and Examined.

Chairman.

409. (To Sir *Daniel Hall.*) Turning to paragraph 1 of the Report of the Comptroller and Auditor-General, on page 121, Sir Daniel, could you tell us a little more about that paragraph where it is stated that the Board of Agriculture consider that it would not be practicable to treat the advances to the War Agricultural Committees as imprests?—I think I can put in a report to you on that point. The matter has been very fully considered. There is a large number of very small accounts to be paid by each of these War Executive Committees, and we considered these to be responsible bodies, and that the expense of dealing with the vouchers by the Central Office would be greater than any value of the audit.

410. They are such small amounts?—Yes.

411. With reference to paragraph 2, what is the Arrow Tin-making Department?—These three things are all one enterprise which was set up at the beginning of the war as an emergency affair. It is jam-making, vegetable drying, and fruit canning.

412. Is that the place where a little difficulty arose last year in connection with salaries?—(Sir *Sydney Olivier.*) You asked some questions last year about the original establishment, but it has now been reformed on an entirely new footing.

413. How do they come to make tin?—(Sir *Daniel Hall.*) The tin is for their canning; they set up a subsidiary branch to make their own tins to can the fruit in. It is really a bookkeeping matter; the business makes the tins and sells them to itself, and therefore it is rather a bookkeeping entry. There is a loss on those items and a profit at Arrow. It depends on what it charges the other Departments for its tins.

Mr. *Haslam.*

414. Is this an ordinary trading Department?—Yes, except that it is practically dealing entirely with the War Office.

415. It makes a profit, apparently, on the sales?—Yes.

Chairman.

416. With regard to Sub-head V 1, on page 112, I see that the National Stud shows an excess of receipts over expenditure?—The National Stud shows a profit on the year's working.

Mr. *Blair.*

417. Do you in the National Stud depreciate the stock?—Yes. I can give you details. In this year of account, which ends the 31st December, 1916, the blood stock are written down from £48,000 to £43,700.

418. On what principle do you depreciate the blood stock?—In this case on valuation, but a new principle has been laid down now, that the brood mares shall at a certain point be taken at a fixed value. As long as we have the same number of brood mares from year to year the value shall not fluctuate and they shall be considered to be equally valuable for the purpose for which we have them. The stallions, which of course have a very high figure attached to them, are very drastically written down from year to year, and a sum is put into reserve against the occasional purchases required to fill in the stallion gaps.

Mr. *Blair*—continued.

419. On the other hand, do you appreciate your stock?—No.

420. You do not even appreciate your cattle? You have a large number of cattle, I understand?—The cattle have been treated on a commercial valuation basis; they are valued by an outside authority year by year, just as if it were an ordinary farming business.

421. This year you must have appreciated them to a large extent?—This year cattle, which were £4,500 at the beginning of the year, stood at £7,900 at the end of the year, but that I understand was not due to writing up, but to actual increase. There is not a large breeding stock on the place; they are cattle brought in for fattening and sold again.

422. Not cows?—There are some, but it is not altogether a breeding place in the cattle way.

423. So that the National stud now is not only paying its way, but making a profit?—It is making a profit; it shows a profit of £2,600 on this account, but I think in view of these very large valuations one would not attach too great importance to that figure.

424. What is the extent of the acreage, about 1,000 acres?—I am afraid I have not got that information, but I think it is not as much as that.

Sir *Charles Henry.*

425. In the year under review did the horses win any races?—I really do not know; I was not responsible in the year under review, and I cannot give you that information.

Mr. *Blair.*

426. Do you go in for the principle of bringing new blood into this stud farm?—We have very great confidence in Captain Greer, who is in charge as manager there.

427. You do not know that?—I could not tell you.

Mr. *Leif Jones.*

428. With regard to Sub-head E 1, on page 112, "War Agricultural Committees and Food Production," does that include the expenditure of the Food Production Department?—That is the Food Production Department. I might explain that this refers to the last quarter of last year only, at which time the normal Board of Agriculture was acting as it were as agents for the Food Production Department, which then from that time had an Accounting Officer of its own.

429. How will their subsequent expenditure be accounted for? Will it be under your Vote of Credit?—It

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 11.—Board of Agriculture and Fisheries—*continued.*

Mr. *Leif Jones*—continued.

—It is on our Vote of Credit, but the Food Production Department has its own Accounting Officer.

430. When shall we get the accounts of it? Will it be in the Vote of Credit or under your Vote?—In the Vote of Credit. I think I am right in saying that.

Mr. *Haslam.*

431. Is there any other Department besides the Board of Agriculture and Fisheries which deals with Fishery development?—There is a Scotch Board and an Irish Board, but this is the Fish Food Committee.

432. One more question. I see a grant of £1,225 and £1,350, under Sub-heads P and Q, but those are such small amounts that they surely cannot cover the cost of the developments?—No, these were specific investigations and researches which were financed, as it were, from the Development Fund in both cases. They are portions only.

433. Where does the sum total occur showing the expenditure on the Development of Fisheries?—The Fishery Account generally would be simply included under Sub-head A, "Salaries, Wages and Allowances." Sub-heads P, Q and R are special Votes for certain particular purposes. Of course, Q, "Fishery Development," is really Research, and all that was suspended; we had to give up our steamer, and the Research Officers are engaged in what you might call industrial work in connection with Fisheries.

434. In this particular year there was no expenditure as a capital charge by the Government in order to develop Fisheries?—I should think not in this year.

Mr. *Leif Jones.*

435. I had not quite finished about the Food Production Department. That £52,000 is for the first quarter of its existence really, and the last quarter of the year we are dealing with?—Yes.

436. £52,000 is a good large sum. What does it mainly consist of?—(Mr. *Floud.*) May I answer that? The £52,000 represents advances made to the Agricultural Executive Committees for administration expenses, and for the expense of cultivating farm lands they have taken possession of.

437. Only for that quarter?—That was the amount actually issued in that quarter.

438. Do you receive accounts of the way it is used from the Board of Agriculture?—We get accounts from every Committee every quarter; they are audited locally and examined when they come to the head office.

439. So that you keep control of what they are spending?—Yes.

440. You grant the money at your discretion, or you did, and then they account for it to you?—They account for it to us.

441. Do you make any statement to Parliament as to anybody about it, or is it entirely a secret of your own?—We do not make any separate statement, but our accounts are open to examination by the Comptroller and Auditor-General.

442. Where should I, or any other individual, get it, if I wanted it?—We could give you the information from the Accounts of the Committees, which are sent up every quarter.

443. But it is not recorded anywhere?—No.

444. And you have ceased to have to do with it now?—I am responsible now as Accounting Officer for the Food Production Department.

445. Have the Board of Agriculture ceased to have anything to do with it?—Yes, since a separate account was started for the Food Production Department.

446. Sir Daniel, with regard to Sub-head L 1, the Committee on Home-grown Timber Supply, they have left you, have they not?—(Sir *Daniel Hall.*) It was transferred from us to the War Office.

447. It did not rest there?—No; the point which

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 11.—Board of Agriculture and Fisheries—*continued.*

Mr. *Leif Jones*—continued.

was made at the time was that the War Office was practically the only buyers and that they wanted to unify the accounts.

448. What is this £28,000?—It was the administrative charges of the staff employed on this work. A rough trading account has been made out for the period in question, and during that period the purchases and the conversion cost £1,880,000. The valuation of the stocks at the end of the period amounted to £960,000. The sales amounted to £1,001,000. Then there were tools which were purchased at a cost of £148,000, and valued at £98,000.

449. Tools?—Tools and machinery; the whole department had to be equipped, and there was a comparatively large expenditure in getting the Canadian Forestry Corps here and equipping them and starting them, which amounted to £300,000 in the first year.

450. Is this £28,000 a sort of balance?—No, those are actual administration expenses.

451. For one quarter?—For the whole year.

452. I will not examine you, Sir Daniel, on the Trading Account; we shall get that on the Vote of Credit, I suppose, from the Timber Comptroller, or does not he come into this year at all?—Yes.

453. Will there be anything on the Vote of Credit this year we are dealing with?—I do not think so—I do not think you will get that yet.

454. Where shall we get that Trading Account of yours?—(Sir *Sydney Olivier.*) You are nominally down on the Vote of Credit Account.

455. The thing I am anxious to find out is really what the labour and so on you are employing is costing, but I suppose I should go to the Timber Comptroller for that?—(Sir *Daniel Hall.*) I think for details of that kind you would have to go to him.

Sir *Charles Henry.*

456. I would like to ask Mr. Wilkins a question on page 113. On this Vote £49,000 was allocated from the Vote of Credit; does that represent the whole of the expenses in connection with the war?—(Mr. *Wilkins.*) The note just below the account says, "That expenditure of at least £81,000 has been identified as directly arising out of the existence of a state of war." Therefore it does not; it represents the amount, less the savings, which have been effected on the Vote.

457. Therefore to get at the real expenditure on the war one must not look at the amount on the Vote of Credit, but at the additional grants made?—If you want to see the net condition you would look at these.

Mr. *McKinnon Wood.*

458. What Department is now responsible for timber supply?—(Sir *Daniel Hall.*) The Board of Trade.

459. It was your Board first of all, the Board of Agriculture, then the War Office, and then the Board of Trade?—Yes, there was a re-transfer after six months.

460. Why did you give it up, if I may ask?—Originally it was transferred from us in order to unify the accounts, because it was stated that the War Office were the buyers or purchasers of this timber; it was being done on their account, and they wanted to gather the whole thing together. They were concerned with the purchase of foreign timber as well.

461. But they were not the only purchasers of home-grown timber, were they?—I think the fellings were very largely being executed on their account.

462. Did not the supply of pit props come into the matter at all?—Yes.

463. That is a very big thing?—A very large part of the felling is now being done for pit props.

464. So that really all the timber was not provided for the War Office?—No.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 11.—Board of Agriculture and Fisheries—*continued.*

Chairman.

465. The War Office cut it down and sell for pit props what they do not want, is not that so?—(Mr. *Wilkins.*) I do not know if I should be in order in following up Sir Charles Henry's question, but the situation about the issues of the Vote of Credit is made very clear by the Table on page 3 of the Appropriation Accounts immediately following the Comptroller and Auditor-General's Report.

466. Turning to page 118, Sir Daniel, do you deal with the development of forestry or re-afforestation?—(Sir *Daniel Hall.*) Only from the point of view of our schemes for re-afforestation, but there is no expenditure on re-afforestation here. We are deeply engaged in discussion of the schemes connected with the afforestation policy.

467. Was the Committee, which produced that excellent Report, one of your Committees?—It was a Sub-Committee of the Reconstruction Committee.

Mr. *Leif Jones.*

468. What are your relations to that Sub-Committee? Is that still going on with its work?—No, the sub-Committee has reported and the Ministry of Reconstruction has been discussing with us on the lines of that Report what action should be taken. The matter is under discussion at the present time.

469. How many Committees are there which deal with afforestation or touch the subject?—I think only that one of late, within the war period.

470. There is your own Department which does, of course, deal with the matter?—We do not deal with what you might call the large questions of re-afforestation, except as to the policy of the Board. We have no Committee dealing with afforestation.

471. Does not the development of forestry touch afforestation at all?—Yes, that is part of our normal functions.

472. That is exactly the point I am on, what is the relation between you in the exercise of your normal functions with this afforestation work on hand and the new Committees set up to see after re-afforestation as a reconstruction policy?—As regards the Committee we simply as a Board gave evidence before that Committee—that is before the Reconstruction Sub-Committee. It took evidence from the Board as to our views on policy and presumably considered those views in preparing the Report. Now the Minister of Reconstruction, Dr. Addison, has been a good deal in discussion with Mr. Prothero on the action to be taken as arising out of the Report of the Reconstruction Sub-Committee, and I think I may say a policy has been submitted to the Government.

473. Are you consenting parties to that policy?—Certainly, to the policy submitted to the Government.

474. The position is this, that part of your normal function is to see to afforestation?—Yes.

475. The Reconstruction Ministry has set up re-afforestation as one of the things with which that Ministry deals. Do they set up entirely new apparatus and treat your existing apparatus for furthering afforestation as practically non-existent?—Oh, no, they do not leave us out of account at all. That is why I may say it is an agreed proposition; the proposals that Dr. Addison submits are agreed with Mr. Prothero.

476. And you say that they have made all the use they could of your Forestry Department?—I think so, both in the way of discussing the policy and obtaining information, and I think they propose to continue to do so.

Mr. *Haslam.*

477. What Department, then, would carry out the work when any particular programme was decided upon?—May I be excused from answering that; that is really the very question which is in dispute, and which has been submitted for decision.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 11.—Board of Agriculture and Fisheries—*continued.*

Mr. *McKinnon Wood.*

478. Is it not a fact that the original Timber Committee, when it was in your Department, spent a certain amount of money in preparing for re-afforestation?—The only spending of money that I am aware of in preparation for re-afforestation has been the raising of seedlings by our Department and by the Office of Woods, partly financed by grants from the Development Commission. There are a very large number of seedlings being raised. The Timber Committee did embark on some work of that kind, which has been handed over to ourselves and the Scotch Board of Agriculture.

479. That is what I was referring to?—That work has been handed over to us.

480. You have not really done any work in re-afforestation, and you are really considering the policy?—On a large scale we have not, but we are ready with our schemes.

Chairman.

481. Sir Daniel, I would like to ask you a question on the accounts themselves. On the accounts I see, "Deduct receipts from wood distillation experiment." Have you got wood distillation experiments besides those made by the Woods and Forests?—There was a wood distillation plant situated in the Tintern Woods, for which a grant was obtained from the Development Commission.

482. Is this different to the one which comes under the Woods and Forests Commission?—(Mr. *Wilkins.*) The Woods and Forests Commission parted with their plant.

483. Is this the same plant going on under the Board of Agriculture?—I suppose it is.

484. I will ask the question when we come to the Woods and Forests; at any rate, Sir Daniel, this is a wood distillation experiment of your own?—(Sir *Daniel Hall.*) Yes.

485. I see that there is £1,000 not repayable from the Development Fund, why not repayable? Is it part of your accounts?—There were four grants of £250 a year, which were paid to colleges, prior to the setting up of the Development Fund.

Mr. *Higham.*

486. On that same page I observe there is an amount of capital outlay on vegetable drying and fruit preserving experiments; does that sum of £2,740 represent the whole of the capital outlay?—The total capital outlay is about £4,600, but this is the capital outlay during the year in question.

487. Where is this place Arrow?—Near Alcester.

488. What county is it in?—Warwickshire, on the borders of Warwickshire and Worcestershire.

489. Has any part of these special development expenses been devoted to salmon fisheries?—Yes, there are some items, but I am not sure whether they are in this account. In the Grants in Aid of Research Work there is some small expenditure on salmon fisheries. I could not be quite sure that it is in this particular account, but I know from the Development Commission side that from year to year we made grants on that account.

490. I was wondering whether the Committee were not finding that that development was most profitable for the country and were going more deeply into it, but you do not know at all?—No; the expenditure on salmon is more by way of scientific experiments than commercially.

(*Sir Daniel Hall and Mr. Floud withdrew.*)

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

ON VOTE 20.

NATIONAL DEBT OFFICE.

Sir WILLIAM TURPIN, K.C.B., called in; and Examined.

Chairman.

491. (To Sir *Sydney Olivier.*) Referring to the Report of the Comptroller and Auditor-General on page 136, have you got all the inquiries answered yet with regard to the non-voted services, Sir Sydney?—No we have not.

492. Can you say anything more about that, Sir William —(Sir *William Turpin.*) Yes, they are in hand; they are only small questions which can easily be answered.

493. What are the non-voted services?—I presume they include this Vote of Credit, and Ithink that the Vote of Credit covers the American Dollar Securities Committee as well.

494. That work comes under you?—Yes, we do the clerical work in connection with that; the head-quarters are in our office. Vote A is exceeded by over £30,000.

495. That £35,000 over expenditure on Sub-head A is due a great deal to that American Dollar Securities Committee?—Entirely to the clerical work in connection with that.

Mr. *Leif Jones.*

496. The expenditure in connection with this office will last some time, I imagine?—For four years from the 31st of March.

497. So that if the war came to an end at once it would still last a long time?—Yes.

498. I would like to ask the Treasury, do you propose to continue for, say, three years after the conclusion of the war the continuation of a pre-war estimate?—(Mr. *Wilkins.*) I am sorry to say this point is one with which I am not personally familiar.

499. There is a case arising which is at the bottom of my wishing to change the Treasury system, and what you thought were abnormal expenditures are really in some ways becoming normal expenditures, and will last at any rate for a considerable period. Sir William estimates four years from the present time?—I think it is pretty clear that there are a certain number of things that will not terminate the day after the Declaration of Peace; I quite see that.

500. And some will last many years, as, for instance, the increased cost of managing a much larger debt and money borrowed in all sorts of directions and new ways; it is quite evident that the expenses of the National Debt Office are profoundly modified by the events of the war, and modified not for the period of the war, but for many years after it?—It seems to me that you get a series of cases, some stronger than others.

501. That is very much so, and the point I urge upon

Mr. *Leif Jones*—continued.

this, as before, is that if you made an actual estimate of what is really going to be spent during the year, and deducted from that at the end the estimated amount of war expenditure, you would enable the comparisons you desire to be made, and yet we should get the facts?—As I said during the right honourable gentleman's absence, I am not altogether clear as to the precise nature of the alternative that he suggests.

502. I should like to put it to you in detail.

CLASS VII.

ON VOTE 11.

FRIENDLY SOCIETIES' DEFICIENCY.

Chairman.

503. (To Sir *William Turpin.*) Was that provision against the depreciation of securities by 50 per cent., carried out in this year only?—No, it occurs every year. The depreciation of 50 per cent. is settled by the Treasury; that is, a portion of the surplus on the other funds that is allowed for depreciation, the rest going to the Treasury.

504. The rest goes to the Treasury Savings' Bank Depreciation Fund?—It goes to the Exchequer.

LOCAL LOANS FUND.

Chairman.

505. The Report of the Comptroller and Auditor-General is on the back page of the White Paper. That is merely historical, is it not, Sir Sydney?—(Sir *Sydney Olivier.*) That is so.

Mr. *Higham*

506. On paragraph 3 of the Report, I suppose nothing is known as to the investments and the re-valuing; they are kept to the original cost, I suppose?—(Sir *William Turpin.*) They are taken at cost price.

IRISH LAND PURCHASE FUND.

Mr. *Leif Jones.*

507. (To Sir *William Turpin.*) You were able to tell us the last time, Sir William, that the payments were very satisfactory, and that the arrears were not increasing; can you still say that?—Yes.

508. It is all going well?—Yes.

(*Sir William Turpin withdrew.*)

CLASS II.

ON VOTE 12.

CHARITY COMMISSION.

Mr. HERBERT P. MORRIS, called; and Examined.

Chairman.

509. (To Mr. *Morris.*) We should like a little further explanation, Mr. Morris, of this Report of the Comptroller and Auditor General, on page 122, as to the allowance of £100 a year granted for a private secretary?—Perhaps I had better read you the letter which we sent to the Treasury—it is the Chief Commissioner's own letter—which will explain the circumstances, and then I shall be glad to amplify it. The letter was written on the 18th October, 1917: "Sir,—The Audit Department has called the attention of the Charity Commissioners to the payment of a salary at the rate of £100 a year to a Mr. ——— as private secretary to the Chief Commissioner, and to the fact

Chairman—continued.

that Mr. ——— was at the time of his appointment, and still is, serving with His Majesty's Forces. His predecessor for some considerable period before he ceased to hold the office had first been serving with the Forces, and subsequently had been lent to the Department of the Food Controller, and it did not occur to the Chief Commissioner when he appointed Mr. ——— that any objection would be taken to the continuance of a situation which, while involving considerable inconvenience to himself, did not impose any additional charge on the Exchequer. Mr. ——— would have been selected for the appointment had he not been absent on service, and the Chief Commissioner did not consider that the fact

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 12.—Charity Commission—*continued.*

Chairman—continued.

fact that Mr. ——— had volunteered for active service ought to deprive him of the emoluments which he would otherwise have received. As, however, the question has now been raised, I am instructed by the Chief Commissioner to ask that their Lordships will be good enough to sanction the action which has been taken." The appointment has always been given to a Second Class Clerk, and at the time his predecessor gave up the appointment Mr. ——— was serving with His Majesty's Forces. He was then a man of thirty-eight, with a family, and he had volunteered for military service. He is a most excellent and valued legal clerk, and he would in the ordinary course have been appointed to this post, which, of course, is an advantage and considered an honour. The Chief Commissioner thought it would not be fair to Mr. ——— to place him in a worse position by his having volunteered to go to the Front than he would have been if he had remained in the office, which he could have done, and the Chief Commissioner has himself discharged the duties, at great inconvenience, which otherwise would have been discharged by his private secretary. No one else has done the work; the Chief Commissioner has done all the private correspondence and all the other work which the private secretary would have done. He felt in the circumstances that he was justified in continuing to pay this gentleman the £100 a year. Those are the plain facts, and I put them before the Committee. The action was taken because of the desire that this gentleman should not suffer by his having volunteered for service and gone to the Front. He is a man of thirty-eight years of age, and if he had remained with us, as he is a man of great value, we should have felt justified in granting him a certificate of exemption under the Military Service Act, 1916.

510. Mr. Wilkins, perhaps you could tell us what led the Treasury to agree with this somewhat curious strain of reasoning?—(Mr. *Wilkins.*) The position of the Treasury was simply this, that they saw a certain objection to this procedure, and if they had been consulted beforehand, formally or informally, they would have deprecated it. As, however, it had been done, they did not think the case was sufficiently important to necessitate their withholding sanction. Therefore, in a letter dated the 23rd October, 1917, they gave covering sanction for the action taken.

511. Do you mean that if this fee had been £1,000 instead of £100, they would have queried it?—That partakes of the nature of a hypothetical question.

512. It is not a hypothetical question. You said that it was considered to be a small amount, and that, therefore, you would let it go?—I think I said the matter was not considered sufficiently important.

513. I beg your pardon, you referred to the amount?—I may not have made myself clear, but the impression I wished to convey was that, taking into consideration the circumstances of the case and the amount of the allowance, they did not think the objection was so considerable as to make it necessary for them to withhold their sanction.

514. If the circumstances had been the same and the amount had been £1,000 instead of £100, they would have objected?—It is difficult to say; yes, I should imagine they would have objected.

515. This is another instance on the part of the Treasury of *de minimis non curat lex*, and this grant being £100, a small amount, and not very advantageous, they have let it go, whereas if it had been £1,000 they would have queried it; in fact, they said to themselves, "it is so small that we will waste £100 upon that." Is that the position?—No, I am afraid I must make it clear that I should not accept that as the position. There is no question of loss of money; this is an allowance.

516. I beg pardon; this £100 is being paid to a gentleman who is not doing the work in order to lift him out of the category of lots of other people who are losing money every day, because they are serving their country, and because he happens to be the private secretary to some individual who is friendly to him he is given this grant of £100, and the Treasury says that if it had been £1,000 it would have been *ultra vires*, but as it is only £100 they let it go. That is the

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 12.—Charity Commission—*continued.*

Chairman—continued.

story, and I do not call that acting according to proper principle?—May I explain?

517. Please do if you have any explanation that you think will alter my view?—As the Treasury understood the matter it was a question of whether a certain allowance which had been given to the Chief Commissioner for many years should be given to A. or to B. The Chief Commissioner had thought fit, at the cost of some inconvenience to himself, to give it to A. instead of giving it to B.; and there is no question of a loss.

518. If you say that the allowance was given to the Chief Commissioner for a private secretary, and he chose to say, "I will do the work myself, and therefore I will keep the £100, and this £100 was a present to this gentleman from the Chief Commissioner, I do not want to know what the Chief Commissioner does with his money, and it might be some act of kindness on his part, but that is not the question here; this was a deliberate grant to an officer who was not performing any of the functions for which it was granted, and the Treasury come here and say that if it had been £1,000 they would not have allowed it to go through?—I venture to think there is a misunderstanding about the facts. For many years Parliament has voted to the Chief Commissioner an allowance for a Private Secretary, such as is voted to many Permanent Chiefs and Ministers throughout the different Departments. That allowance is not a grant to him in the sense that he can put it into his own pocket; it is a grant given to him for the express purpose of providing himself with a private secretary. As I understand the matter, if this grant had not been paid to Mr. A. he would have been absolutely within his rights, and there would have been no question of audit query or anything of the kind if he had given the grant to Mr. B.

Sir *Charles Henry.*

519. If he had engaged Mr. B. to do the work?—Yes, and therefore from the point of view of the taxpayer there is no question of any loss, or anything of the kind. There is no question of extra grant.

Chairman.

520. But the taxpayer paid £100 and got no work for it. Let us be quite clear about it; if it is a grant to the Chief Commissioner for doing extra work, *cadit quæstio*, but you cannot get out of the fact that the £100 was granted to the Chief Commissioner to enable him to get a private secretary, and he did not get a private secretary, and yet he gave away the £100 to someone else who was not the private secretary and who was not doing the work?—That is so. He performed the work himself. As I said, the Treasury did not like it, and they recorded their dislike of it, and had they been consulted beforehand they would have dissuaded the Chief Commissioner from taking this line, but they did not think the case of such importance that it was necessary to single it out. (Mr. *Morris.*) May I add one point to my previous explanation? Mr. Wilkins has said that this salary is voted to the Chief Commissioner as an allowance for a private secretary. It would, therefore, have been quite within his power to have appointed another gentleman in the office to be Private Secretary, but in order not to do that to Mr. ———'s detriment, he has done the work himself. (Mr. *Wilkins.*) There are cases in other Departments in which gentlemen who have already been private secretaries have gone to the Front, and their superiors have said——

521. May I say this? I did not ask about other Departments, and they are not before us to-day; we are on the accounts of this particular Charity Commission, but I think we have got enough about it now.

Mr. *Blair.*

522. Did I understand you to say that had this gentleman not wanted to go away, you would have certified him as indispensable?—(Mr. *Morris.*) I think we should have done so at that time.

523. So that it amounts to this, that an indispensable has actually gone away?—Certainly, he is one of our most valuable men.

524. Under

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 12.—Charity Commission—*continued.*

Mr. *Higham.*

524. Under the heading "Extra Remuneration" I observe that two Second Division Clerks were lent to the Admiralty, and that they received their salaries in full from this Department, and because they were lent to the Admiralty four other clerks were compelled to work overtime. I see the note says a Second Class Clerk and five other Clerks are paid for overtime?—That is not on account of the two men being lent to the Admiralty. The clerks who were paid for overtime are in our Official Trustees' Department; we have had a very great amount of additional work there during the last two years. We have also lost other useful clerks, and we have had to employ these four of five men overtime mainly to keep up to date the work of the Banking Department of the Official Trustees. Their overtime has nothing to do with the two men lent to the Admiralty.

525. In that case they are really redundant clerks to the Department?—No, they are not redundant; at the Charity Commission we have endeavoured wherever we can to lend men to other Departments, and the result has been that we have to overburden our existing staff considerably. We have only been able to lend them by the other men being willing to give up their holidays and put in extra hours.

526. For which you pay them overtime?—No; a great number of men in the office are getting no overtime pay at all. The Upper Division of the Office and the staff clerks are getting no overtime at all for their extra work.

527. Does it not strike you as unjust that two clerks who went out of the Office should receive double wages while they are out, while others are working overtime for nothing to make up for them?—I cannot help that; that is the result of their good fortune in having been lent to the Admiralty. We have cases of clerks who now express their regret that they were not lent instead of the men we have lent.

(*Mr. Morris withdrew.*)

ON VOTE 13.

GOVERNMENT CHEMIST.

No Questions.

ON VOTE 14.

CIVIL SERVICE COMMISSION.

No Questions.

ON VOTE 15.

EXCHEQUER AND AUDIT DEPARTMENT.

Chairman.

528. (To Sir *Sydney Olivier.*) Where do you get your Appropriations-in-Aid from, Sir Sydney?—They are refunds for audits which we do.

529. From whom—who refunds them?—The Board of Trade Lighthouse Fund, £712; Colonial Office and Imperial Institute, £50; Crown Agents, £250; Greenwich Hospital, and so on.

530. Why should they repay you?—Because they are special funds; for instance, the Crown Agents, the Imperial Institute and Greenwich Hospital are all more or less semi-private funds. They are not funds voted by Parliament.

Mr. *Leif Jones.*

531. What part of the expenditure of your Department do you call War Expenditure? How does that arise? I see that you say £4,600 has been allocated as War Expenditure?—The salaries of temporary clerks account for £6,013; War Bonuses to temporary clerks, £661; Allowances to Staff in Egypt. £773; Gratuities and Commissions, £1,118.

Chairman.

532. You have a staff in France?—We have some in France, but they do not cost us anything extra for salaries, they simply get subsistence allowances. Another item is acting auditors, £225. Those are all war expenditures.

Mr. *Leif Jones.*

533. You are not likely to have a diminished staff in future for many years to come, are you?—I think not.

534. Are we going every year to see this fictitious entry even from the Exchequer and Audit Department?—As long as the Treasury give that instruction I have to prepare my Estimates accordingly.

535. You throw the whole responsibility on the Treasury?—Entirely.

536. You could give us the true estimate?—We could give an approximate estimate of the expenses during the year.

Chairman.

537. Is that all, Sir Sydney?—I should be glad if I might make a statement that at the present time our audit is very much hampered in one or two Departments, especially the Admiralty, owing to the great lack of accommodation for our staff, which delays both the Admiralty and ourselves in dealing with the accounts. They are very short of room.

ON VOTE 16.

FRIENDLY SOCIETIES REGISTRY.

No Questions.

ON VOTE 18.

BOARD OF CONTROL, ENGLAND.

DR. MARRIOTT COOKE called in; and Examined.

Chairman.

538. (To Dr. *Marriott Cooke.*) There is no report of the Comptroller and Auditor-General on this Vote. I presume there is no question about diminishing the number of Commissioners yet?—There has been no further development. It is having our consideration, and I am carefully considering the matter.

Mr. *Leif Jones.*

539. Is a decision likely to be taken soon about it?—There has been no actual further development except the consultations we have had within our own Board, and there has been no vacancy.

540. What is your own forecast in the matter? Do you really expect to get a reduction of the number of the Commissioners or not?—My own impression is that a good deal of the work of a less important character both in mental deficiency and to some extent in lunacy, but not to a very large extent in lunacy, might devolve upon Assistant Commissioners, but at present there is no provision in the Act enabling the appointment of Assistant Commissioners.

541. Would you require legislation to effect anything of that kind?—That is a very moot point, but, on the whole, I am disposed to think legislation is necessary.

Chairman.

542. With regard to Subheads F2 and F3 on page 131, dealing with Farnfield, of course, the first year is conjectional; but do you think you are coming up to your probable estimate of £3,780 in another year?—Yes.

543. Do you know what you have taken this year—never mind the exact figure; this reduced number will not last?—The estimate for the current year under F.2 is £4,525. There will again be a surplus. The Institution is now nearly full, but it has filled less rapidly than we anticipated.

(*Dr. Marriott Cooke withdrew.*)

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

ON VOTE 19.

THE MINT.

Mr. J. W. CAWSTON, C.B., called in; and Examined.

Chairman.

544. (To Mr. *Cawston.*) I think we should like, if you would tell us, something about the amount you paid to the Exchequer for the £43,000 silver.—I am afraid it is extremely difficult at the best of times and especially in these war days to submit any satisfactory estimate of these receipts for a period extending for more than a year ahead, and depending, as those receipts do, on two extremely uncertain factors; first of all, the possible demands for token coin not only from the United Kingdom, but from the sterling-using Dominions and Colonies, South Africa, New Zealand, and so forth, and, second, the possible price of silver during the same period, which has been subject of late to extraordinary fluctuations.

545. I do not think we are complaining of the Estimate, but rather asking about the satisfactory result of the money estimate?—Quite so. I was going to explain that before the war we were able to get a nearer approximation, but during the war, as you know, there have been differences of four and five millions, and now 3½ millions in excess. As to this particular 3½ millions, my predecessor, after the usual consultation with the Bank and so forth, took, I think, the very natural view that in view of the prodigious coinage in the latter part of 1914 and all through 1915, a very considerable reduction might be expected, but, as a matter of fact, it turned out quite differently owing to the continued increase of economic activities generally, and the calendar year 1916 turned out to be a record year for silver.

546. Is that continuing?—It is more or less continuing still. It has not been quite so bad in 1917. 1916 also created a record for bronze, but this has been easily beaten by 1917. Of course, the profits would have been much larger still if it had not been that the price of silver was very much higher than the price upon which the Estimate was framed.

Mr. *Leif Jones.*

547. I wish to ask a question on Subhead K, "Loss on light gold coin withdrawn from circulation." I see there has been very small expenditure under that subhead as compared with your estimate?—That again was an estimate of withdrawals based on the best the Bank could tell my predecessor at the time, and it did not eventuate.

548. Is it, or was it, a pre-war estimate of the sort of sum you might expect to lose in the year as the result of the withdrawal of light gold coin?—My belief is that it was based on what my predecessor heard from the Bank with regard to the particular year.

549. I suggest to you that it is an estimate only in name, and that in fact it is taking a pre-war figure practically, and continuing it, although the conditions have wholly changed?—I am afraid it is recognised on all hands that this business of estimating either the coinage of gold or the withdrawal of gold, or the coinage of silver or the withdrawal of silver, in these days is more or less guesswork.

550. As there is no gold in circulation I suppose there is not withdrawal now of light gold coin?—A certain amount does reach the Bank still through other banks, and so on, as I understand.

551. What is your figure instead of this £46,000 in the current year's Estimates?—I do not think I have the current year's figures. (*Mr. Wilkins.*) £18,500. (*Mr. Cawston.*) We have brought it down to £18,500.

552. So you really have recognised the war conditions?—That is so.

553. And have modified your estimate?—That is so.

554. Mr. Wilkins, do you not think the Treasury ought to have interfered?—(*Mr. Wilkins.*) No.

555. Why not? Do you not think all the comparisons which the students of the future will make will be falsified by the fact that the mint has recognised modern conditions?—I think the sub-head of this account stands in quite a different position to the Salary Sub-head.

556. I wonder why?

Mr. *Haslam.*

557. Was this an actual loss caused by the light coin returned to the Mint for recoinage?—(*Mr. Cawston.*) This is the amount required to cover the deficiency in weight due to the wear in circulation of coin withdrawn at its nominal value at home and at the Branch Mints in Australia, and it also covers commissions of the Bank of England for the collection at £1 per £1,000.

558. What I am trying to get at is this, that any loss on gold coin does not fall upon the banks, but falls on the Mint; is that so?—That is so.

559. This amount of £42,000 odd is really the exact loss for that period?—The loss is £3,634 5s. 4d. The £46,000 was merely an estimate.

560. The loss surely to the nation is the £42,000?—No, that is the amount by which the loss was less than was expected.

561. If that represents the depreciation of our gold coinage, it looks impossible that that can be accurate?—That simply means that not so much gold coin came in as was expected on which the loss of weight had to be renewed.

562. If light gold coins are tendered to the Mint for reminting who bears the loss?—The Mint.

563. And that loss is represented here, is it?—For the year 1916-17 by the figure in the expenditure column, £3,634 5s. 4d. That is the loss on the coin which was actually brought into the Mint by the Bank of England during that year for recoinage.

564. I must leave it at that, but it is so small that I cannot believe it.

Mr. *Blair.*

565. Can you give us the amount of the silver coinage in the year under review?—It was roughly £7,185,000.

566. That is higher than it generally is?—Certainly. Before the war the ordinary coinage of silver was somewhere about £2,000,000.

567. But in the previous year it was almost the same figure as you have given now?—For the previous year 1915-16 the coinage was larger, £8,490,689. As a matter of fact, the calendar years show a different result, as the coinage of the calendar year 1916 was higher than the calendar year 1915.

Mr. *Higham.*

568. I should like to ask a question about that loss at the foot of page 133 "Expenditure amounting approximately to £23,900, which has been met out of savings, has been incurred in respect of work performed for the Ministry of Munitions." What sort of work was that?—That is rather special work that is done for the Munitions Department.

Sir *Charles Henry.*

569. Are you doing any work for the War Office for medals?—A great deal.

570. Under which head?—That small amount under Sub-head O is for medals for the Home Office, Police Medals, and the like, for which we pay wholly. We also make War Office and Admiralty medals, but the bullion for them is bought by the Department. There is a separate account; we do the manufacture, and the cost of manufacture falls on our Salaries Sub-head.

571. The bullion is supplied by the Department?—As a matter of fact we buy it for them and have it sent in.

572. Do you buy your bullion now direct, or through the Bank of England?—We buy it direct. I give the orders myself. We have a committee now which sits, co-ordinating the demands of the various Departments and buying for an Allied Government, too.

(*Mr. Cawston withdrew.*)

ON VOTE 21.

PUBLIC RECORD OFFICE.

No Questions.

ON VOTE 22.

PUBLIC WORKS LOAN COMMISSION.

No Questions.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

ON VOTE 23.

REGISTRAR-GENERAL'S OFFICE, ENGLAND.

Sir BERNARD MALLET, K.C.B., called in; and Examined.

Sir Charles Henry.

573. (To Sir *Bernard Mallet.*) I see there is an item "Expenses under National Registration Act, £4,612"; that item also appears in the Local Government Board Account?—It is paid out of the Vote of Credit; so I suppose it would appear under the Local Government Board, too. As a matter of fact it is ceasing now; we are putting an end to it, and it will not appear after this next fortnight. The work will be shut down altogether, and I hope the whole sum will be saved.

574. It will all be under the Local Government Board now?—It will not be done any longer by us. It was a bit of machinery set up to notify the Local Registration Authorities of enlistments and enable them to clear their registers of enlisted men. It was

Sir *Charles Henry*—continued.

an elaborate system, and the recruiting officers were not able to do it, but it will now be done by the National Service officials.

575. The National Registration was done under you?—Yes.

576. Under the Local Government Board there is an amount for expenditure on National Registration of £63,000?—That is paying the Local Registration Authorities for their expenses; that has nothing to do with this particular expense.

577. You are the central organisation?—Yes, we superintend the registration, but now that £5,000 a year will cease altogether.

(*Sir Bernard Mallet withdrew.*)

ON VOTE 24.

STATIONERY AND PRINTING.

Sir FREDERICK ATTERBURY, K.C.B., called in; and Examined.

Chairman.

578. (To Sir *Frederick Atterbury.*) With regard to paragraph 2 of the Comptroller and Auditor-General's Report on page 143, have you yet been able to answer that inquiry?—A minute has just been made saying that a definite contract should be entered into. We have already a contract of an informal nature which covers the cost sufficiently well, but still we do think, in view of the possibilities in connection with this particular work of printing pictures for propaganda, it is well to put in a definite contract some arrangement about what will happen if the war suddenly comes to an end, and no more of those pictures are required. We have not got that in our existing informal contracts which cover the price. Therefore, we think it would be better to make some arrangement about the conclusion of the contract, so that there may be no claim for want of full use of any machinery put up or anything of that sort. I have examined the case, and I have not the least doubt that we shall be able to come to quite a satisfactory arrangement. There is no disagreement between us and the contractor.

579. You are to bear the cost of them on your Vote?—Yes, it is part of our war expenditure.

580. It will not come under the Ministry of Propaganda at all?—I think not; I think there is no intention of removing the expenditure from us.

581. In fact, the country will not know what propaganda really costs unless they come to your Stationery Vote?—We shall have to pick it out from our different printers' accounts.

582. Do you propose to do that?—We are doing it.

583. On paragraph 4, have you been able to give that list of surpluses and deficiencies yet?—I am very sorry to have to come before the Committee again with excuses for not being able to give proper accounts. I promised this time last year that I would have a stocktaking, and that I hoped in future I should be able to give those proper accounts of surpluses and deficiencies, but I am sorry to say, although the Department expended a lot of time and took great care over its stocktaking, yet the same causes which led to these bad accounts which I brought before the Committee last year still exist. We have still an inefficient and insufficient staff, more especially an inefficient staff, which does make an immense quantity of mistakes. I fully recognise since I have been back from my illness that we cannot go on as we are, and I propose to have a special stocktaking next September. This is an awkward time to take stock, at Easter; but I propose in September, which is a slack time generally for our

Chairman—continued.

orders, to have a stocktaking and again make a start, adopting a slight alteration in our methods of keeping these accounts, a method which has been tried with success at my branch at Manchester, and, I think, I may promise that so far as the human element will permit we will be able in future to keep a better account of surpluses and deficiencies than we can at this time.

Sir Charles Henry.

584. I would like to ask one or two questions on this Vote. I see in your remarks explaining the increase, you mention repeatedly extra supplies, mainly for the Admiralty and War Office. Do you keep a record of the quantity of the stationery and the value of the stationery you supply to each Department?—We were obliged to drop that when the war came on, there was so much work. We put the matter before the Treasury, and they agreed that this account was an impossible one.

Mr. *Blair.*

585. Not even the quantity?—Not even the quantity.

Sir *Charles Henry.*

586. What check have you got over Departments as to the extravagant use of stationery and paper?—Our check is this: We ourselves have a considerable staff of expert men both in printing and paper, who scrutinise the demands of all the Departments, who make alterations, who make representations personally by daily attendance at the offices, and cut down in every possible way both the numbers which they order and the sizes of the material. We exercise direct control in a way no outsider understands in the least. I may say Sir George Toulmin's Committee has had me before it on several occasions, and I have explained there fully, and that Committee has issued a very laudatory report on the action of the Stationery Office.

Chairman.

587. It has indeed?—But I cannot get any outsider to understand that we do anything more than merely exhort the Public Departments to be economical.

Sir *Charles Henry.*

588. I am only an outsider and I cannot understand this, why it should entail such very extraordinary work on your Department to note the deliveries you make to the different Departments?—That is a very big job, and it means nothing. If, say, 200,000 reams of paper were wanted for the War Office requirements, it

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 24.—Stationery and Printing—*continued.*

Sir *Charles Henry*—continued.

it would be possible for you to say "That is double what it was last year, and therefore it must be extravagant." Surely the only way to do is to watch the orders themselves, and to see whether any particular order can be cut down. Suppose a Department like the Local Government Board wishes to get to the electors, it asks for forms to reach 16,000,000 electors. It is no use our saying, "You can only have enough *forms to reach 8,000,000,*" because they must have them for the 16,000,000. If, on the other hand, taking another illustration, the Inland Revenue ask for No. 11 Schedule D Form, which many of you know is a huge yellow form about that size (*indicating a large size*), what do I do? I put one of my experts on it and say, "Can you make that smaller?" That expert then recasts that form, reproduces every word upon it, and yet makes it about two-thirds of the size, and saves perhaps about sixteen tons of paper. That is what we are daily doing, and that is what I can get no one to understand.

589. You think there is no object to be attained by the House of Commons knowing the value of the stationery supplied to each Department?—It is not worth anything.

590. Then I ask you this: Can you get the accurate expenditure of the different Departments unless you have that kept?—Can we get?

591. Can the House of Commons get?—No.

592. You supply a large amount of stationery, not so much stationery, but I suppose it comes under this Vote—leaflets and things of that kind—to the National Service Department?—Ah, yes.

593. You know that a large quantity of that material was wasted, and was converted into pulp again?—We gave evidence about that; we discovered that, and we gave evidence to the Select Committee about it.

594. The House of Commons would never know the real expenditure of the National Service Department in connection with stationery on leaflets and matters like that?—No, but we can get it out for you.

595. If you can get it out, why not charge the Departments with it?—Of course, it is worth while when a Department has become as notorious as the National Service Department did become, either as an object lesson or for pillorying various people, possibly to go into the details and extract all the particulars, but if you ask me to do that for the War Office I say that it would not be worth while.

596. Could we have for the period under review—take the National Service—the amount in value or the bulk in quantity supplied to that Department?—Certainly we can do that.

Mr. *Haslam.*

597. I think that Sir Charles Henry's point is that there is a great deal of waste owing to the Departments ordering papers, or whatever they may be, circulars and so forth, which they find, after they have ordered them, they do not require. If the Department were more careful they would make quite sure they wanted these various circulars or pamphlets, or whatever they may be, before issuing the order, and if there were such a return as Sir Charles Henry suggests, especially where there is a greater consumption, it might act as a check upon them?—I do not think it would be in the least degree a check. We find during the war that nearly every Department is affected in the same way, and nearly every Department has got a big increase in its printing and paper.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 24.—Stationery and Printing—*continued.*

Chairman.

598. I think you are a little off the point; what Mr. Haslam is alluding to is that he wants to feel that the Admiralty and War Office have got to pay for their stationery, and thinks that would put them on the *qui vive* so that they should not spend too much. You have the further duty of checking what amount they have, but that is not the point of the question?—That is another big question. We used to give what the honourable member is asking for—that is to say, we used to give a return of the consumption of the different Departments—but it was of no use, and when the war came on we got permission to drop it. We still bear all the costs on our Vote, just as we did when we made that return.

Mr. *Haslam.*

599. So far as the actual quality of the paper and so forth is concerned, your Department is economical?—In every way.

Mr. *Blair.*

600. Are you responsible for the printing of the Post Office Bearer Bonds—the War Loan Bonds?—I do not think we are.

601. Which Department of State would print the Bearer Bonds?—I think the Inland Revenue arrange that.

Chairman.

602. The Inland Revenue did the Treasury notes?—Yes, they do those.

Mr. *Blair.*

603. The £1 notes would come under your Department?—No, they are under the Inland Revenue Department. The original £1 notes I did.

604. Do you not do the new Treasury notes?—I do not do those; I did the first notes when the war came upon us, and I claim the credit for that, but with regard to the present note it was considered proper that the Inland Revenue should take charge of that.

Sir *Charles Henry.*

605. I would like to ask Mr. Wilkins this question. Under the Treasury authority *ex gratia* payments were made to contractors in consideration of cancelling the Army and Navy lists, and also for other items. You will find that under the note to Sub-heads E and L on page 142. May I ask you why the Treasury gave that authority?—(*Mr. Wilkins.*) I have not the particulars about that here, and perhaps Sir Frederick Atterbury could answer it. (Sir *Frederick Atterbury.*) What is the one you would like to know about?

606. Take the biggest one, the £4,116 which was paid to a contractor as acts of grace in connection with the printing of the Army and Navy lists?—I may say that that was the subject of an Inquiry by the Committee last year, and I explained how it was—that the Army List had grown from a very small thing with very few corrections into a huge thing with an enormous number of corrections. The old contract has been a comparatively small one——

607. I remember it now; they are paid by the book and not by the folio. Is that so?—They are paid now practically for their corrections on an hourly basis. We have our own Inspector on the premises, who finds out exactly what work they have done, and we pay accordingly.

(Sir *Frederick Atterbury withdrew.*)

ON VOTE 25.

OFFICE OF WOODS, FORESTS AND LAND REVENUES.

MR. CHARLES E. HOWLETT, I.S.O., and Mr. MORTON EVANS, called in and Examined.

Chairman.

608. There are no questions on the Vote itself, but there is something on the White Paper, and the Report of the Comptroller and Auditor-General is at

Chairman—continued.

the back of the White Paper. I do not think it is on the Report, but last year we raised the question of the allocation of the value of the timber?—(Mr. *Howlett.*)

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 25.—Office of Woods, Forests and Land Revenues—*continued.*

Chairman—continued.

Howlett.) No change can be made on the present system without legislation, and I understand that the Treasury rather deprecate legislation now. At the same time, if you wish to hear what I think about it I am quite prepared, of course, to answer.

609. I think the Committee would be rather glad if you could tell us shortly your own views about it?—First, perhaps, I might give you a few facts about our present system. When we purchase an estate, as I mentioned last year, with standing timber we pay for the standing timber out of capital, and when that timber is sold the proceeds are carried to income. I may mention that last year Mr. Leif Jones suggested that perhaps it was a case for creating a sinking fund to repay the capital. It seems to me that that is perfectly sound in principle, but our purchases of standing timber in recent times have been so few that it would not carry us very far. There has been only one large transaction of that sort, about £69,000. Then I ought also to say that in past years there have been often deficits on the forests, and those deficits have been met out of income. All costs of maintenance and replanting are also met out of income. When the forest income has been insufficient the deficit has come from general revenue. What I suggest is that we ought to be guided generally by the law of settled estates, that is, that the capital of the Crown ought to be put in the same position as the capital of a settled estate. As regards mines we have already adopted that principle with a modification. The tenants for life of settled estates must carry to capital three-quarters of the money received by them from mines if they are not impeachable for waste, and if they are not impeachable for waste they must still put by a quarter. The Crown Lands Acts of 1866 and 1894 adopted that principle with this modification, that instead of putting by three-quarters of the proceeds of the mines we put by one-half. So we stood midway between the man who was impeachable for waste and the man who was not. What I suggest is that as regards timber we should adopt the same principle. The law with regard to timber is that three-quarters of the net proceeds of sale must be carried to capital if the tenant for life is impeachable for waste, but no part if he is not impeachable. The tenant for life who is not impeachable for waste may cut all timber with certain exceptions. I suggest there again that we ought to be midway between the two, and that we should be authorised to carry three-eighths of the net proceeds of the sales of timber to capital. That is following exactly, I submit, the principle adopted with regard to mines. If legislation is possible (I do not know whether they could do it under the Finance Bill), then I take it that the Commissioners of Woods ought to be authorised to carry to capital such sums as the Treasury may direct, not exceeding that proportion of three-eighths of the net proceeds of the sale of timber. They would, of course, have authority to settle any question as to what the net proceeds were. I think our function is to act as advocates for the capital of the Crown to see that it is duly kept up, and I submit that would be fair and proper towards the Crown. Of course, if that were carried out as a matter of fact the money would be invested in War Bonds probably, and therefore the Chancellor of the Exchequer would get the money at the present time; it would make very little difference to the public purse, but it would protect the capital. My colleague, Mr. Evans, does not agree with my views, and if you would like to hear the other side perhaps you would ask him to state his views. (Mr. *Wilkins.*) I was not clear whether your scheme included any suggestion about expenditure. (Mr. *Howlett.*) Under the principle of the Settled Estates Act you carry to capital a certain proportion of the net proceeds of sale, and, I understand, if you sell timber for £1,000, and it costs you £50 to have an auction, you deduct the £50; of if you incur other expenses in connection with the sale you deduct them. You carry to capital a certain proportion of the net proceeds of sale.

610. I should like to read this over before asking any questions about it. What is your objection Mr. Evans?—(Mr. *Evans.*) It would, I think, tend unnecessarily to complicate the accounts, and I am unable to see that any practical advantage would be gained. Since 1829, when the principal Act (10 Geo. IV., cap. 50) under which the Land Revenues are administered, was passed, costs of planting and maintenance have been defrayed, and deficits made good, out of general revenue, and there appears to be no sufficient reason for altering the existing law by which the Exchequer takes the entire net proceeds of the crop. The case of mines is not similar, because minerals cannot be reproduced; also the principle of the Settled Land Acts is not strictly applicable, because, the State being perpetual, results may be averaged over periods much longer than would be equitable in the case of private individuals. No doubt violent fluctuations should be avoided if possible in the net revenue annually paid into the Exchequer, but such are not likely to take place under the present system. The recent rise of about £100,000, caused chiefly by abnormal falls of timber, will probably be maintained owing to the increase in other sources of revenue.

Mr. *Blair.*

611. Are you replanting as much?—We are replanting as fast as we can, but we cannot do much now, because it is so difficult to get labour.

612. You are not keeping up the normal replanting then?—No, we cannot do very much now, but we are doing a certain amount, and we shall do it as rapidly as possible after the war.

Sir *Charles Henry.*

613. The soldiers are doing the cutting for you?—The Canadians are doing a lot of cutting. (Mr. *Wilkins.*) I did not anticipate that this line would be taken, still less that the Woods and Forests would have spoken with two inconsistent voices, but if there is any idea of making a change, the matter should be further considered. Considerable inconvenience has arisen in the past about the difficulty of deciding whether operations of replanting should be carried to capital or not. I should be sorry that the matter should be left in an inconclusive position. So far as the Treasury is concerned, we thought the objection to legislation at the present time was vital, and we thought that disposed of the matter for the moment.

Chairman.

614. I supose the Treasure do not object to our getting a little further information upon it?—On the contrary.

615. That is all I wanted to get to-day? If the Treasury can afford any information to the Committee they will be happy to do so.

Sir *Charles Henry.*

616. Who is the Minister of Parliament responsible for the Office of Woods and Forests?—The Office of Woods is a subordinate Department of the Treasury, and until about ten years ago all questions and all discussions in Committee of Supply were taken by the Financial Secretary, but about 1906 the President of the Board of Agriculture became an *ex-officio* Commissioner of Woods. He takes the Parliamentary work connected with one side of the Office, and the Financial Secretary to the Treasury takes the other side.

Mr. *Haslam.*

617. What is going to be done about the sales of timber accounts?—(Mr. *Howlett.*) I was about to submit to my Commissioners the question which has been raised, but I was waiting until after to-day. I ought, perhaps, to mention that the receipts have been very abnormal during the war.

Sir *Charles Henry.*

618. I suppose you get the market price for your timber?—Yes.

619. The market price of timber has increased about 75 per cent. since the war, has it not?—It has increased very largely, but it is subject to a maximum price by the Controller now.

620. With

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 25.—Office of Woods, Forests and Land Revenues—*continued.*

Chairman.

620. With regard to the Wood Distillation Works mentioned on page 4, I think they are closed down, are they not?—They are handed over to the Munitions Department.

621. Those are the ones under the Board of Agriculture, are they not?—They have nothing to do with the Board of Agriculture.

622. The Board of Agriculture is down in the Forest of Dean somewhere, is it not?—No, it is the Office of Woods only there. We have really a joint Forestry Department, so that we have one officer who serves both Departments.

623. There is just a further point about Windsor Parks and Woods estate and forest areas, also mentioned on page 4. Apparently the forest areas brought in £97,000, and cost you £80,000?—(Mr. *Morton Evans.*) No, that is not quite right. That was all we received in the year, but there is somewhere about £50,000 coming in.

624. That is what I thought. As to your Emergency Afforestation, is that proceeding satisfactorily—are the results of the expenditure fairly satisfactory?—(Mr. *Howlett.*) We hope so. There is really no reafforestation to speak of going on at present, because with coniferous woods it is impossible to plant for three or four years after felling, as insects breed in the stumps, and so on.

625. I know they do; all this is simply the preparation of seedlings and things of that sort?—Yes.

626. Is that on the same ground quite close by where they are to be planted out?—These seedlings are being raised in a great variety of places.

Sir *Charles Henry.*

627. Do you give information to the general public as the results of your experiments and tests?—Yes, I think I may say we do, particularly through the Board of Agriculture office.

628. If any number of the general public, for instance, if I came and told you that I wanted to do some afforestation, would you advise on the results?—Yes, an Inspector is often sent to advise a landowner on such questions.

629. You get something for Salcey Lawn?—Is that the place referred to in the American Centenary book?—Not that I am aware of.

(The Witness withdrew.)

Tuesday, 19th March 1918.

MEMBERS PRESENT:

Mr. Baldwin.	Mr. Higham.
Mr. Reginald Blair.	Mr. Leif Jones.
Sir Hildred Carlile	Mr. Jowett.
Sir Henry Craik.	Sir Robert Williams.
Mr. Haslam.	Mr. McKinnon Wood.
Sir Charles Henry.	

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-1917.

Sir SYDNEY OLIVIER, K.C.M.G., C.B., and Mr. ROLAND WILKINS, C.B., called in; and Examined.

Chairman.

630. (To *Mr. Wilkins.*) Dealing first with the Treasury Minute, Mr. Wilkins, have you got anything further to say in elucidation of paragraph 2 of the Minute?—If it were convenient to the Committee, I would suggest that that should be taken when Sir Malcolm Ramsay is giving his evidence; it is intimately connected with his Department.

631. Will he take the whole of the Minute?—He will take the paragraph numbered 2; I shall take the rest.

Mr. *Leif Jones.*

632. With regard to paragraph 3 of the Treasury Minute about nominating Treasury representatives upon Committees generally, I understand that the Treasury rather favours this system of placing a representative on spending bodies, Committees, shall I say, which may have spending powers?—There is, of course, a distinction between a deliberative committee and an executive body.

633. What distinction do you draw as to the presence of a Treasury representative on the body?—Speaking in general terms, the balance of advantage would appear to be in favour of the presence of a Treasury representative on both.

634. That is not practicable, is it, as long as the Treasury is limited to its present staff or anything like it?—Oh, no, it certainly cannot be applied universally; and the crux of the problem is to have a sense of proportion, and to decide in what cases it is worth while having a Treasury representative and in what cases it is not worth while.

Mr. *Leif Jones*—continued.

635. What are the determining factors? That is exactly what I want to get at. What would determine the Treasury?—That must depend entirely on the circumstances of the particular case.

636. What made you think it desirable to have a representative, say, on the Central Control Board (Liquor Traffic)?—It is very largely a question of the size and importance of the points which are likely to arise. In the case of the Central Control Board a new experiment involving the expenditure of a considerable amount of public money was being made, and it was decided in those circumstances that it was desirable that the Treasury should have a representative. I am afraid it would be impossible to lay down in abstract terms any general principle, and all cases of that sort must be decided upon their merits.

637. I notice in the paragraph: "My Lords are not clear why the Committee consider that 'the practice throws upon the Treasury, with whom the ultimate decision rests, a new and very grave responsibility'"?—A Committee, of which I think the right honourable gentleman is a member, has said the last word upon the point when it recorded its view that the Treasury was the Chancellor of the Exchequer and his staff. On that point there is really nothing more to be said. No new responsibility has been thrown on the Chancellor of the Exchequer.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

Mr. *Leif Jones*—continued.

638. You do not really in this argument meet the point which occurs to me as a point of danger, which is that the Treasury representative who is a member of a spending body ceases to regard himself as representing the Treasury, and becomes an enthusiast for the spending work in which he is engaged; yet the Treasury, thinking they have a representative on the spending body, sleep happy in that conviction?—The Treasury never sleep. Of course, I quite see that it is a possible temptation; but it is a temptation which every Treasury representative ought to resist, and I think would resist.

639. You do not admit that that has occurred in your experience?—Broadly speaking, no, certainly not.

640. And you still think that it is better that the Treasury representative should be a full member of these spending bodies, and not merely attend the meetings and watch the proceedings on behalf of the Treasury?—I do not think I have ever known the alternative procedure adopted; he would have no right of attendance.

641. I agree you have not, and yet I suggest to you that if your Treasury representative is not to cease, in some degree, to be the Treasury representative, he ought to be that and nothing else on the Committees. Take your Liquor Control Board; your Liquor Control Board is a body engaged in social experiments admittedly, and the members of it, most of them, are keen and eager reformers. They are engaged in carrying out this social experiment and they want to do it as well as they can. The natural result is that they want to get through the expenditure, and having their Treasury representative not there to check them, but as a member of the body to carry out the experiments, I suggest that he loses his power of controlling the finance of the body?—It was, perhaps, a little unfortunate last year that this subject came on at the end of an afternoon, when I had not the opportunity of explaining precisely the way in which a Treasury representative on a Committee treats his work. His duty is to go down and watch the financial points which arise. He puts three questions, in which are comprehended practically the whole of a Treasury man's work; he says to the Department first of all, "What do you want?" secondly, "What will it cost?" and thirdly, "Why do you want it?" or if you like to put it in another way, "What are the reasons for which you cannot do without it?" When he has ascertained by precise examination what are the financial points involved, he then, of course, reports to his Minister. The honourable member for the Bewdley Division, who is here to-day, will recollect certain instances in which I myself, serving on Committees, have gone to him and reported that I had attended perhaps four or five meetings, and that certain points had arisen on which I wished for his guidance and decision. The Treasury representative does not sever himself from his responsible Minister, but keeps in close touch with him and refers to him from time to time on the substantial points which have arisen.

642. But he cannot on a Committee, I suggest to you, say to the Committee of which he is a member, "What do you want?" He says, "What do we want?" Then he may say, "What will it cost?" and then he says for the next question, "How can we get it?" I suggest to you that these are very different questions to his saying, "What do you want?" "What will it cost?" and "Ought you to have it?"—I disclaim altogether that he says, "How can we get it?"

643. He, being a member of the body and keen on the carrying out of the desired experiment, is not that exactly what he would say: "How can we get the money?" Have you ever come under the seductive demands of a Committee of this kind, of which you were a member?—I have had the duty of serving on a great many Committees, but, as a rule, they have not been engaged in social experiments.

644. I must leave it; I think I have made the point in my mind quite clear?—I quite admit that there is a certain temptation, but I think it is a temptation which would be resisted.

Sir *Charles Henry.*

645. May I ask what you understand by "Their Lordships' Officers of Accounts," who are those?—Myself and my colleague here.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

Sir *Charles Henry*—continued.

646. On the question raised in paragraph 4, are we to understand that the result is that the Departments are to be charged with the officers taken from other Departments above £100 a year?—A note is appended to each Appropriation Account, so that the facts are fully set out for the information of Parliament.

647. That is not included in the Estimates?—No.

648. Why are they not included in the Estimates? If the Board of Education lends an official to the Ministry of Munitions, why is the salary for that official still on the Board of Education Vote?—Because their status is still that of an officer of the former Department. There is no concealment of the facts, which are all set out.

Chairman.

649. Have you anything further to say on paragraph 5?—The Committee have already taken the second point there.

650. With regard to paragraph 6, I observe that the Treasury has allowed the sum of £18 11s. 5d., which we thought ought to be allowed. On paragraph 7, have you got the answer yet?—Yes, we have had an answer about that.

651. What is to be done about it?—The National Health Insurance Joint Committee told us that: "The value of the safeguard provided by the practice of requiring cheques to be signed by at least two persons has been recognised from the first, and it has been possible, by administrative action, to secure the general adoption of the practice by Approved Societies and branches of Approved Societies," and in this connection they refer to paragraph 12 of the Third Report of the National Insurance Audit Department: "The Government Auditor's reports on the accounts of Societies and branches draw attention from time to time to instances in which the precaution is not being observed, and the matter is taken up with the respective Societies concerned. In some cases the circumstances are such as to make it impracticable for the requirement to be insisted on, but the Joint Committee are assured as a general rule the policy of each of the Commissions is substantially in accord with the recommendation of the Public Accounts Committee,"

Sir *Hildred Carlile.*

652. I should like to ask what the exceptions are, Mr. Wilkins. Do they mention any exceptions? Where is there an Approved Society to-day where the cheques should not be signed by two persons?—I have read the letter practically in full, and I am afraid I cannot give any further information; no doubt, when Mr. Bunbury comes, he will be able to explain.

Chairman.

653. Referring to paragraph 8, I see the Treasury gave sanction to the payment to the Attorney-General?—Yes.

Sir *Charles Henry.*

654. Has the Attorney-General been notified of this?—Not yet.

Chairman.

655. As to paragraph 9 of the Minute, which deals with the further cost of currency notes, I do not see the force of the last remark there, that because the Committee concurred in the measures taken at the outset, therefore, they should be treated as emergency measures in the fourth year when still further notes are coming out?—The Treasury argument is that it should not be treated as an emergency measure, but as a normal measure.

656. Have you got any answer from the Post Office about the question mentioned in paragraph 10?—I think no answer was necessary; we merely informed the Post Office of the opinion of the Committee.

Mr. *Leif Jones.*

657. Referring to paragraph 11, what happens when, my

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

Mr. *Leif Jones*—continued.

my Lords note our observations? I am quite serious. Does anything follow?—The Committee did not recommend any action. My Lords read the Committee's remarks with the respect they always command, and I think no further steps were called for. Of course, where the Committee recommends any definite measures the Treasury would always refer to that in a Minute.

CLASS II.

ON VOTE 28.

OFFICE OF THE SECRETARY FOR SCOTLAND.

Sir JAMES MILLER DODDS, K.C.B., called in; and Examined.

No questions on Vote 28.

ON VOTE 29.

BOARD OF AGRICULTURE, SCOTLAND.

Chairman.

658. (To Sir *Sydney Olivier.*) With regard to the report of the Comptroller and Auditor-General on page 154, Sir Sydney, have you got the further particulars for which you asked about this payment?—We have; we have got a report on that matter. (Sir *James Dodds.*) May I remind you that I do not answer for this Vote? (Sir *Sydney Olivier.*) This is our query: "It appears that this sum is the capitalised value at twenty years' purchase of the difference between the fair rents as fixed by the Land Court, £64 5s., and the cumulo fair rents previously agreed upon by the Board and Sir Kenneth Mackenzie, £96. In view of the disparity between these amounts it is requested that it may be stated how the Board's figure of £96 was arrived at, and in what circumstances it was settled before the decision of the Land Court?" The answer is: "The Board's estimate of the cumulo fair rents was based on the recommendation of their technical adviser, who inspected the ground and valued it at what seemed to him a fair rate. The difference between his valuation and that of the Land Court resolves itself into a conflict of opinion on a technical question. With regard to the settlement of the terms of compensation in anticipation of the fixing of fair rents by the Land Court, the circumstances were: (a) That in this district there was an urgent demand for holdings which, in the opinion of the Board, could not be disregarded. (b) That Isle Ewe was the only farm which could be obtained for the purpose of constituting new holdings. (c) That in terms of Section 7 (16) (b) of the Small Landholders (Scotland) Act, 1911, it was not available except by agreement. (d) That the proprietor was not favourably disposed to the scheme, and his consent could only be obtained by a settlement of compensation by agreement based on the recognition of £130 as the rental value of the farm, and payment to him of the capitalised value of the difference between that figure and the fair rents to be fixed by the Land Court. He also stipulated for formal compulsory procedure to be adopted in order to conserve his interests under Section 17 of the Act. Treasury authority covering this transaction has now been obtained." The Comptroller's observation upon this is: "It will be seen from the attached Minutes that the matter was not regarded as satisfactory by the Scottish Office, and that the estimated expenditure in respect of the constitution of fifteen small holdings on this farm was £3,885."

659. Is the Comptroller satisfied with the answer of the Scottish Office about it?—I gather from the Minutes that it was not regarded by the Scottish Office as a very satisfactory case.

660. Can you tell us, Mr. Wilkins, why the Treasury gave sanction for this payment?—(Mr. *Wilkins.*) If it be a case where there has been communication, I will look up the matter and inform the Committee next time.

661. We will come back to it again?—(Sir *Sydney Olivier.*) The Treasury consent was only a formal matter. It had to be given because the recipient was a Civil Servant, and so the compensation could not be given to him without the formal sanction of the Treasury. It did not imply any approval by the Treasury of the compensation. (Mr. *Wilkins.*) Then I think I may assume that the Treasury did not go into the merits of the case at all. (Sir *Sydney Olivier.*) That is quite so. (Sir *James Dodds.*) I think I might explain perhaps that this money is payable out of the Agriculture Fund under the Scottish Small Landholders Act, which is administered by the Secretary for Scotland subject to audit, but has accumulated as a grant in aid, and the Treasury sanction is not required to individual items of expenditure.

662. Do you happen to know anything about this at all, Sir James?—I recollect the case, but I think it is perhaps better I should not speak about it officially until you have had the Accounting Officer of the Department, if you propose to have him.

663. I think we had better put this back until we ask Sir Robert Wright to come and tell us about it?—(Mr. *Wilkins.*) I understand you will not expect anything more from the Treasury? (*Chairman.*) No.

ON VOTE 30.

FISHERY BOARD FOR SCOTLAND.

Mr. *Leif Jones.*

664. (To Sir *James Dodds.*) In the year under review can you tell us, Sir James, if the Fishery Board for Scotland did any work for the Food Production Department?—In the year 1916-17?

665. Yes?—Not in that year, according to my recollection.

Sir *Hildred Carlile.*

666. I would just like to ask about the extra remuneration at the bottom of page 155: "One Second Division Clerk (£70-£300)." What do those figures in the brackets mean?—That means the scale. The minimum amount of the scale is £70 and the maximum £300 at the other extreme.

667. For the class to which the clerk belongs?—Yes, I presume so.

668. £84 seems to be a pretty large amount for overtime, does it not?—Do you mean relatively or absolutely?

669. I wanted to know what his ordinary salary was?—I cannot say what his ordinary salary was.

670. You cannot say whether it was nearer £70 or £300?—No. Of course at the present time there is a good deal of overtime being done more than usual, for the reason that so many men are absent, and other people take their places, and it may be cheaper to do overtime than to have a second clerk.

ON VOTE 31.

GENERAL BOARD OF CONTROL FOR SCOTLAND.

Sir *Hildred Carlile.*

671. (To Sir *James Dodds.*) With regard to subhead D on page 157, "Contributions Towards Expenses of Local Authorities." It is stated in the note that the payable

19 *March* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. R. WILKINS, C.B., Sir J. DODDS, K.C.B., and Mr. C. H. HUNT, M.B.E. [*Continued.*

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 31.—General Board of Control for Scotland—*continued.*

Sir *Hildred Carlile*—continued.

payable orders were delayed. Does that affect anybody, and, if so, in what way? They were delayed so that they did not come into that financial year, I think?—They were delayed with the result that the money had to be revoted. They were delayed really, I think I ought to say at once, under a misapprehension on the part of the Accounting Division of the Board. They had not finished their investigations into claims for very good reasons by the 31st March, and instead of paying over at once what they had finished they kept the whole lot standing over until they should be in a position to pay the lot. They did that quite clearly under a misconception of the Treasury rules, which has been corrected, and which they much regret.

672. So that it is a dereliction of duty to some extent; they ought to have dealt with those which had already been decided?—They certainly ought to have dealt with them.

673. And there is no reason why the whole lot should have been deferred?—There is not, but they bona fide believed that they could do it, and that it was regular. It was a piece of genuine ignorance on their part, and I think it is only right to say they ought to have known, but they have been very short staffed, and some of their officers have not had very long experience at all.

674. Is the result, Sir James, that certain persons were kept out of their money?—These are local authorities, and they were kept waiting a month beyond the time they would otherwise have got it. This was a grant for local authorities.

675. They may have got it very early in the next financial year?—They did.

Sir *Henry Craik.*

676. There is no action to which you would apply the words "dereliction of duty" in this matter?—No, I do not think that is quite justified, or quite a fair way to put it, but it would not have occurred in a department with more financial experience.

677. There were new men coming in?—Yes, and this was a new grant.

ON VOTE 32.

REGISTRAR-GENERAL'S OFFICE, SCOTLAND.

No Questions.

ON VOTE 33.

LOCAL GOVERNMENT BOARD FOR SCOTLAND.

No Questions.

CLASS III.

ON VOTE 11.

LAW CHARGES AND COURTS OF LAW, SCOTLAND.

Sir *Charles Henry.*

678. (To Sir *James Dodds.*) You do not set forward in this account the amount paid to the Lord Advocate or the Solicitor-General for Scotland for fees for Government work in the same way as they do in the English Vote?—The Lord Advocate and the Solicitor-General are not entitled to fees; their salary is inclusive.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

ON VOTE 12.

SCOTTISH LAND COURT.

No Questions.

ON VOTE 13.

REGISTER HOUSE, EDINBURGH.

No Questions.

ON VOTE 14.

PRISONS, SCOTLAND.

Chairman.

679. (To Sir *James Dodds.*) I suppose the two big deficiencies on sub-heads D and K on page 225 pretty well corresponds to the note on top of page 226 as to the deficiency of prisoners?—It is proportionate, I should think. I can give you the figures of the commitments, if you like.

Mr. *Leif Jones.*

680. With reference to the farm account on page 227, I see you made £1,397 from your farm?—Yes, that is net profit.

681. How much land have you got in hand, do you know?—I understand about 91 acres.

682. That is a very respectable profit.

CLASS IV.

ON VOTE 10.

NATIONAL GALLERIES, SCOTLAND.

No Questions.

CLASS VII.

ON VOTE 10.

HIGHLANDS AND ISLANDS (MEDICAL SERVICE) BOARD.

Chairman.

683. (To Sir *James Dodds.*) This is practically a grant in aid?—Yes.

Mr. *Leif Jones.*

684. I see your balance is growing very much?—Yes, it has been impossible to carry this out as one would have carried it out in peace time during war; it is very largely with the object of giving greater medical assistance in the Western Highlands and Islands, and the scarcity of doctors and nurses has made that clearly impossible on the scale contemplated. We hope to do it later on, of course.

685. Is the grant in aid a Statutory grant?—Yes.

686. You go on getting your £42,000 a year?—Yes.

Sir *Charles Henry.*

687. Do the Islanders get mostly gratuitous medical treatment?—The intention of this grant was to provide not absolutely gratuitous but medical treatment at very small rates, which should be available to the poor, and would thus provide doctors in the district, who would also deal with paying patients.

688. It is part of the National Insurance scheme?—It is all worked in with that. The Board contains a representative of the Scottish Insurance Commission.

(*Sir James Dodds withdrew.*)

CLASS III.

ON VOTE 1.

LAW CHARGES, ENGLAND.

Mr. C. H. HUNT, M.B.E., called in; and Examined.

Sir *Charles Henry.*

689. (To Mr. *Hunt.*) Referring to sub-head F, is there any reason why the intervention by the King's Proctor was increased to such an extent as to be 25 per cent. more?—Yes, the number of undefended cases are increasing rapidly year by year.

690. So that the King's Proctor has to enquire into each one?—Yes.

Sir *Charles Henry*—continued.

691. They have to be watched by the King's Proctor?—Yes.

692. Do you think that that is a result of the war?—Well, I think I have heard that view expressed, but I would not like to lay it down myself.

693. With

19 *March* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. R. WILKINS, C.B., and Mr. C. H. HUNT, M.B.E. [*Continued.*

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 1.—Law Charges, England—*continued.*

Mr. *Higham.*

693. With reference to sub-heads B and C, the items are enormously increased in both cases. I was under the impression from our general reports that criminality had shown an enormous decrease during the war?—So far as the normal work of the Department is concerned, yes; as to the number of prosecutions as far as ordinary cases are concerned that is so, but there are quite a number of prosecutions under the Regulations for Defence of the Realm.

Chairman.

694. That is what you call war service?—Yes.

695. They amount to £38,000 altogether under the two heads?—Yes. (Mr. *Wilkins.*) Perhaps the

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 1.—Law Charges, England—*continued.*

Chairman—continued.

honourable member would look at page 193, the notes on sub-heads B and C, which give an explanation.

Mr. *Higham.*

696. I could not make out what "War Services" meant. I put it all under criminality?—(Mr. *Hunt.*) Just in the same way sub-head C covers the Procurator-General's costs—all the prize work, collisions and salvage cases.

697. It covers all the new offences created by the new Acts?—Yes, as regards sub-head B.

698. Will sub-head B be governed by the same factor?—That is just the same, caused by the extra staff.

(*Mr. Hunt withdrew.*)

ON VOTE 3.

SUPREME COURT OF JUDICATURE AND COURT OF CRIMINAL APPEAL.

Mr. J. M. PAULTON, called in; and Examined.

Sir *Hildred Carlile.*

699. (To Mr. *Paulton.*) Can any near Estimate be made of the Appropriations in Aid this time, do you think?—The variations are due to the fact that the Admiralty Marshal's fees were brought into account, and it was not expected that they would be brought into account. The matter was investigated by the Audit Office, I think, and it was decided to bring the Admiralty Marshal's fees into account—that was a large sum unexpectedly brought in—and also the fees of the District Registrars. It was decided by the Treasury that those should be brought into this account.

700. Were they not in before at any previous period?—If I might read the Treasury Minute, it explains it I think; it says: "Although their Lordships are of opinion that it is not desirable that District Registrars should derive any profit from acting as agents for professional men in matters connected in any way with the business of their Registries, they do not now propose to interfere with this source of emolument; but in fixing the salaries to be henceforth received by the District Registrars, their Lordships desire it should be fully understood that if Parliament should hereafter decide to restrict or altogether prohibit" the District Registrars from doing this kind of work—in fact, the Registrars should accept appointment on the understanding that their fees should be brought into account.

701. Do those remarks apply also to the Admiralty Marshal's fees?—No.

702. That is a larger amount, is it not?—That is shown in a Return to the House of the 29th March, 1916. The Treasury decided then that these fees should be deducted from the gross amounts received by the Admiralty Marshal, and then that they should instead of being, as I think was the original intention, carried forward without being accounted for, perhaps until the end of the war, or some indefinite time, bring them into this account.

703. That accounts largely for the excess?—I had to carry them to my account for "Fees on proceeding and taxation," and that was a large sum I unexpectedly brought into my account, £37,000.

Mr. *Leif Jones.*

704. That accounts for the whole of the excess, really: you would have been well under your Estimates, but for those fees?—Yes.

705. In the Estimate for the current year, did you revise your Estimate in light of the fact that you are receiving those increased fees?—For the current year I have already received £26,000 in respect of Admiralty Marshal's fees, and I think there are about £6,000 more expected to come in.

706. I mean did you revise your Estimate?—(Sir *Sydney Olivier.*) He made it £30,000 instead of £20,000.

707. That is to say you have attempted to estimate the amount you expected to receive from these Prize Court fees?—(Mr. *Paulton.*) It is hardly possible for

Mr. *Leif Jones*—continued.

me to estimate the amount which I am likely to receive in respect of Admiralty fees, but I should think the amount may be taken at about £32,000.

708. I was really only wanting to know what you did when you made your Estimate for this Vote in the year 1917-18 and 1918-19?—I have not got those figures before me.

709. What is the amount in the current year's Estimates for Appropriation in Aid?—£30,000 this year and £20,000 last year.

710. What does the increase mean?—Probably as the Prize Fund is growing rapidly one assumes the fees will increase.

711. What I am trying to arrive at is: You have tried to estimate the amount you are going to receive out of the Prize Fund this year?—Towards Appropriations in Aid, yes.

712. Were you not blamed by the Treasury for putting down an Estimate which is based purely on a war condition? Did they not say to you "Disregard the war"?—I am happy to say I have not received any rebuke at present.

713. Mr. Wilkins, can you explain why the Supreme Court of Judicature and Court of Criminal Appeal is allowed to modify its Estimate on the ground of war conditions?—(Mr. *Wilkins.*) This case is analogous to those which the right honourable gentleman referred to the other day.

714. That is what I desire to point out to you.

Mr. *Higham.*

715. With reference to Subhead (f) on page 196, I observe there is a grant of £15,000, and the amount spent was nearly £17,000, and the explanation given in the Note is that the excess has been caused by payment of substitutes for copyists on service?—(Mr. *Paulton.*) Yes.

716. What sort of work is that?—I think a considerable increase was due in the Probate Registries to the increased number of wills admitted to probate on account of casualties in the war.

717. Is not the whole of that copying work charged at a very high rate to the persons who want the copies, and should there not be a still larger increase in the Appropriation in Aid for that item? The copying work is not done for the Department, but for parties outside who want copies of wills, or extracts from wills?—The cost is in salaries paid to the copyists, and I do not quite understand how otherwise it might be entered.

718. The copyists are engaged, not in doing work purely for the Department, unless the public demand that work in the way of copies of wills, they are engaged in copying wills and making extracts from them, are they not?—That is a considerable proportion of their work. I have not an intimate knowledge of the working of this Scrivenery Department, and it does not come within my personal knowledge at all.

719.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 3.—Supreme Court of Judicature and Court of Criminal Appeal—*continued.*

Mr. *Baldwin.*

719. Is there not always an increase where you have members of the service away on military service, because you have to pay both a proportion of their salaries while they are away, and the full wages of substitutes, which naturally throws up the cost?—Yes.

Chairman.

720. With regard to Subhead (c): "Circuit Allowances and Expenses," I observe that some of the judges have dispensed with their Marshals?—Yes.

721. Was there any great inconvenience found because they dispensed with their Marshals?—Apparently not.

722. Is it contemplated to do away with Marshals altogether?—That I cannot say, but ten of the judges have dispensed with their Marshals on various occasions.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 3.—Supreme Court of Judicature and Court of Criminal Appeal—*continued.*

Mr. *Higham.*

723. I would also like to refer to Subhead (l). "The Salaries and Expenses in the Court of Criminal Appeal." If my honourable friend's remark is correct about paying the wages of those who have gone and also the wages of substitutes who do the work, what is the explanation of the decrease of over £3,000 on the same kind of work in the Court of Criminal Appeal?—That is entirely due to the diminution in crime.

724. Then the persons doing the shorthand writer's work, if they go to the front, are not paid?—If they are not employed they are not paid.

725. Why should not the same apply to the Probate Registries?—I think they are in an entirely different position. Shorthand writers are not Government servants.

726. I see; they are engaged temporarily on each occasion perhaps?—Yes, they are the employees of the firms who supply the Government, and a number of individuals also are employed.

(*Mr. Paulton withdrew.*)

ON VOTE 4.

LAND REGISTRY.

No Questions.

ON VOTE 5.

PUBLIC TRUSTEE.

Sir CHARLES STEWART, K.B.E., called in; and Examined.

Sir *Charles Henry.*

727. (To Sir *Charles Stewart.*) You make your Appropriation in Aid, with the exception of £10, the amount of your expenses, do you not?—Yes.

728. You estimate your total receipts for the year at £100,000, do you not?—Yes.

729. How do you account for the actual receipts being so much in excess of the estimate of receipts?—That is accounted for by the Trading with the Enemy fees. It is rather a separate item, £164,000. Those are fees which have come in through my work in connection with Trading with the Enemy.

730. Should not that, as a matter of fact, by strict accountancy go to the credit of the Vote of Credit, Mr. Wilkins?—My estimate did not include any amount for the Trading with the Enemy.

731. But you had an excess on account of the war of £65,000?—That is so.

732. This is money payable to the Exchequer, and, as the Treasury is so punctilious about charging anything in connection with the war to the Vote of Credit, may I ask why this £65,000 is not put to the relief of the Vote of Credit?—(Mr. *Wilkins.*) There is no Appropriation in Aid of the Vote of Credit, and the money goes to the Exchequer via Miscellaneous Revenue as Extra Receipts.

733. But if it had not been for the war you would never have got this amount?—That is so. We have no provision for Receipts on the Vote of Credit, and therefore we have no heading to which we can credit it, and it went in direct as ordinary Extra Receipts.

734. Was this matter ever considered?—Yes, it has been considered.

Mr. *McKinnon Wood.*

735. You must have a great many receipts on the Vote of Credit as well as expenditure, because when you buy enormous quantities of goods and sell them, that must go to the credit of the Vote of Credit?—But in these cases we had special trading accounts.

Sir *Charles Henry.*

736. Then you will admit that your theory that the Vote of Credit gives the actual expenditure of the war will not be quite accurate?—I think this would be an exception.

Sir *Charles Henry*—continued.

Mr. *Higham.*

737. Following that up, I understand that buildings, factories, which are taken over from enemy firms come to your Department?—(Sir *Charles Stewart.*) Those which are desired to be continued. Those which are wound up are wound up by Controllers, and the proceeds only come over to me.

738. Supposing they decided to continue a factory, as they have done in some cases, and the business is sold by auction, say, at £100,000, does that come to your Department?—Yes.

739. And then it would not be shown here?—That is so.

740. Do those accounts come before us?—No, those would not any more than my ordinary Trust Accounts. I am the custodian for such purpose as may be decided afterwards by Order in Council, and I really hold those in trust for the enemy. Those are like portions of my trust.

741. The cost of dealing with them is charged against the receipts, so that they do not appear in these accounts at all?—That is so. The salaries in connection with the temporary staff employed on the Trading with the Enemy work do not appear in these accounts, I think.*

Mr. *McKinnon Wood.*

742. Is there any account published of these moneys you receive and hold, as you put it, on trust?—No.

Mr. *Higham.*

743. Take the sale, for instance, of all the Nigerian properties of the enemy, that would come under your surveillance, would it not?—Yes, that would be brought over.

744. And the sale of the big chemical works on the Mersey?—No doubt.

745. You say that none of these accounts are published in any way?—No.

746. Is there any intention of publishing them; were they ever reviewed by any Committee?—As to publication, that is a question for the Government.

747. There

* The Public Trustee desires to correct this answer. Trading with the Enemy Expenses and Fees have been included in the Public Trustee's Estimates since 1916-17, but not before that date.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 5.—Public Trustee—*continued.*

Mr. *Haslam.*

747. There must be some account, surely?—We have the fullest accounts, and they are available.

748. What becomes of any balance to the credit of the country? That must be shown in some account?—The monies are invested in the meantime; we keep them.

Mr. *Higham.*

749. I think we have had before us previously a list of all your investments?—It is reported, yes.

750. In those investments will there be included the investments of the enemy properties?—No.

751. Or will they be in a separate account?—I have never prepared any account of the enemy monies at all.

752. But of the ordinary investments you have?—Yes. I think you have had a list before the Committee.

753. I was wondering why we did not have it now.

Mr. *Haslam.*

754. Your accounts of that kind are really in abeyance?—All these accounts are in suspense really until after the war.

Sir *Charles Henry.*

755. I think you said to my honourable friend that the expenses in connection with the Trading with the Enemy Act are not charged in this amount of £79,000?—No.*

756. Although there is a note under extra remuneration which mentions services in connection with the administration of the Trading with the Enemy Act, does that mean that this woman clerk was transferred to the Trading with the Enemy Department? I am referring to the first item under extra remuneration?—That is only a special amount, a small portion, but the whole amount of the salaries would come to something like nearly £5,000 a year. They are all temporary staff for this temporary work, and on quite short notice.

757. As to Subhead I., "Loss by Irregular Sale," is that a contingency which is liable to recur in a multiplicity of cases?—Well, it is; I think we cannot help having some of these sales. What actually happened in this case was a sale of some mining shares. The Public Trustee was appointed joint executor with another, and the joint executor had sold these shares under his power as executor, and the Public Trustee not being aware that he had sold these shares proceeded to sell them also, so that they were sold twice over. It was in connection with a Welsh colliery reconstruction matter, and a month afterwards it was found that the certificates were not forthcoming, and thereupon the sale by the executor came out, and we had to rebuy them, and the cost of rebuying them was £154.

758. When you, as Public Trustees, are appointed executor with some other person, can the one executor act without the other's knowledge?—Yes, an executor can; they were in his name, and he was able to effect the sale, but we have now an arrangement by which no order by a broker can be executed unless he has the certificates in his possession, so that I think we have closed the door to the recurrence of that.

759. Could you not make a regulation if you are called upon to act as trustee jointly with another, that your sanction must be obtained before any action is taken under the executory? Could not that be made a regulation of your Department?—It is a very unusual thing that this should occur. This man was very conversant with the colliery, and the whole thing and the matter was rather left in his hands to effect. The Public Trustee had no objection to his effecting the sale; he was quite certain he would do it properly.

760. The sale was effected with your cognisance, was it?—We did not quite know of it, but we should have had no objection to his selling, because we knew he was well qualified to do so.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

On Vote 5.—Public Trustee—*continued.*

Sir *Charles Henry*—continued.

Chairman.

761. You cannot stop an executor selling a thing; under the common law he has full power to sell?—Yes, one executor can act without the other.

762. Cannot you stop such a thing as this in some way or another? Should the certificates be held outside your office?—They happened to be in his possession at the time.

763. Should not the Trustee have demanded that they should come up to the Public Trustee's office?—Yes, it is our ordinary practice to do so, but it so happened that it all occurred at once almost, and he died immediately afterwards.

764. Otherwise the request would have been made that the certificates should have been brought up?—Yes, we could not find out who had the certificates, and then it came out owing to his death, but he had passed them on to the broker, and had actually sold them.

Mr. *Jowett.*

765. With respect to those accounts that do not come before us, I would like to ask what system of audit is adopted; the Trading with the Enemy Accounts, for instance?—(Sir *Sydney Olivier.*) They are audited under the instructions of the Comptroller and Auditor-General.

Mr. *Haslam.*

766. The production of the accounts is only deferred, I understand?—(Sir *Charles Stewart.*) That is so—deferred.

Mr. *Jowett.*] But they do not come before a committee at all; they do not come before us.

Chairman.

767. Not yet. As to Subhead B2, Sir Charles, "Loss Arising from Unauthorised Investment." Can you explain that?—That is an amount which was referred to last year, and it is the amount payable per annum to make up the difference.

768. How many years has that to run?—We have now crystallised that by the sale of the stock, and in next year's accounts there will be a loss of £254 to account for. I do not know whether it would be any satisfaction to the Committee to know that our total losses from breaches of trust over the whole period amount to about £2,500.

769. In how many years is that?—In the ten years.

Mr. *Haslam.*

770. And what is the total amount of money that is represented in investments?—About 100 millions.

Mr. *Wilkins.*] The Committee may be interested to know that the Treasury have asked the Public Trustee always to state in cases of this kind the name of any officer regarded as primarily responsible for loss, with his rank and salary at the date when it was incurred, and also of his decision as to taking disciplinary measures against the officer concerned.

(*Sir Charles Stewart withdrew.*)

ON VOTE 6.

COUNTY COURTS.

No Questions.

* The Public Trustee desires to correct this answer. Trading with the Enemy Expenses and Fees have been included in the Public Trustee's Estimate since 1916-17, but not before that date.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

ON VOTE 8.

PRISONS, ENGLAND AND THE COLONIES.

Mr. EDGAR BRINE called in; and Examined.

Chairman.

771. (To Mr. *Brine.*) There is a very large underspending, Mr. Brine, all the way through, £71,000?—Very large.

772. Is that in consequence of the general diminution of crime?—Quite so.

773. Why does that involve under Subhead P a great over expenditure on travelling and removal expenses of officers?—By closing so many of our prisons we have to dispose of the staff. At the other towns where we send the staff they cannot get houses; we are obliged to leave their families behind, and to pay the officer in that case a separation allowance, perhaps a guinea a week, while he is separated from his family. There are several cases of this, and that causes the over expenditure under that subhead.

Sir *Hildred Carlile.*

774. I should like to ask if there is much variation in the nature of the goods produced. I notice you had over £400,000 worth of sales of goods. Are you employing your people pretty much on the same sort of goods?—We are employing a great number of the prisoners on war stores, and they comprise forty to fifty different kinds of things of which the chief are coal bags for the Admiralty—coal sacks, haversacks, halters for transport service, cocoanut matting, sand bags, nose bags, parcel post bags, and mail bags generally.

775. Really valuable and useful things?—Yes. The number of things we have made for the War Office and Admiralty since the war commenced is somewhere between twelve and 13,000,000 articles of various kinds.

Chairman.

776. On that, do you happen to know the cost of the nosebags, the price at which you sell them?—I have not got it with me, but I can supply the information.

777. You do not undercut the private firms?—No.

778. On the other hand, do you charge very much more than a private firm would charge?—We followed out our general rule in articles made for other Government Departments—the cost of materials and from 2½ to 10 per cent. for incidental expenses, wear and tear of tools, etc., added to which there is a small charge for cartage, not for railway carriage at present, because the railway carriage is free, and that forms the basis of the charge. That no doubt is less than the same articles could be procured for from private firms.

779. You put on that percentage in order not to compete with private firms?—No, we simply put on a percentage on the cost of the materials to cover our own wear and tear on our tools. We profess to make no profit whatever; we supply the Government Department with the article as cheaply as we can.

780. If a Government Department offered to supply nose bags to a cavalry regiment at something like fifteen pence, and they subsequently bought them from the trade at 10d. or 10½d., you are not making them much cheaper than the trade at that rate?—Well, I should say that we do not profess to compete with the trade at all; we simply profess to make the article for the other Government Department as cheaply as we can.

Mr. *Haslam.*

781. You do make a net profit here of over £61,000?—That is so.

782. Is that on the sale of these goods?—That is on the sale of those goods, and on our general trading; we fix a price which shall save us from any loss, and the margin of profit as is shown here is simply to save that loss.

783. It is a very satisfactory rate?—It is.

Mr. *Leif Jones.*

784. Referring to your Farm Accounts on page 212, I see you show a net profit on your farm of £4,600; can you tell me how many acres of land you have in hand?—At Dartmoor we have 875 acres cultivated, and 845 other uncultivated or in course of being reclaimed; at Parkhurst 85 acres all cultivated, at Borstall 170 acres,

Mr. *Leif Jones*—continued.

at Feltham 54 acres, and at our other establishments there are gardens which in the aggregate amount to 75 acres, a total of 1,258 acres cultivated.

785. And your profit is——?—£4,617.

786. You pay no rent?—We pay rent at Dartmoor of £200, and at Parkhurst of £55.

787. Is that a fair rent for those lands?—Very.

788. A full rent?—Quite.

789. You have 300 acres for which you pay no rent?—As to the remainder, there is no rent because the lands themselves are Government property.

790. That diminished your profit to that extent?—Yes.

791. You pay nothing for labour?—That is so.

792. Do you know what amount of labour you have—how many men and so on? Do you attempt to keep account at all as to what your labour costs you?—By men do you mean officers to supervise?

793. No, I mean men working on the land?—I have not the figures with me.

794. Do you know how many men you have?—Yes, every day; we have returns showing the number of prisoners engaged on every industry or employment.

795. Have you tried to reduce this profit of yours to a real profit? Do you know at all whether your farm has paid you? If you paid rent for the land which you own, and interest on the capital involved, and wages for the men you have on the farm, do you think you would have made anything?—I should doubt it.

796. Every other farmer is making money now?—Yes.

Sir *Hildred Carlile.*

797. Do you say that you pay £200 a year for the Dartmoor land, which is about 1,700 acres?—Yes.

798. The 875 acres in arable?—Yes, it is in cultivation, mostly grass land.

799. That is a very low rent, is it not?—Very; it is fixed on a lease from the Duchy of Cornwall, by which it progresses; the land in its natural state is at a very small rent per acre, and as we reclaim it so we pay a trifle more.

800. I am not speaking of the reclaiming, but of the 875 acres which is now cultivated?—The rent is low.

801. You ought to show a profit certainly?

Mr. *Higham.*

802. I do not quite understand the form of accounts there. Take page 212, they show on the credit side, "By receipts for sales," but what does it mean by sub-head I, "Lighting, water, cleaning articles, etc., £33 odd"; and there is also a large item under sub-head D for "Victualling." How do they get on the received side?—That is the received side of the farm accounts as a trading concern. These letters form the initials of the voted head of service to which the produce is sold.

803. Take the item I, "Lighting, water, cleaning articles, etc."; how can you sell lighting?—If you turn back to page 209 you will see there that the item I is lighting. The articles which are sold at page 212 under "I" were charged to the sub-head I on page 209.

804. Is it this, that the lighting of the farm itself is charged against the farm itself?—No, it is the lighting of the prison; the lighting and cleaning of the prison is accounted for to Parliament under sub-head I, page 209. The farm on page 212 has sold something to the prison, which is accounted for under that same sub-head.

805. So that probably lighting is a mistake?—Not at all; it is a general term, "Lighting, water, cleaning articles, etc." It is an inclusive term.

806. Then the "victualling" will be the food on the particular farm?—Yes.

(*Mr. Brine withdrew.*)

ON VOTE 10.

CRIMINAL LUNATIC ASYLUMS, ENGLAND.

No Questions.

807. Has

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

CLASS IV.

ON VOTE 2.

BRITISH MUSEUM.

Mr. *Higham.*

807. Has the closing of certain sections of the British Museum not resulted in the saving of any wages or the cost of cleaning, etc.?—(Sir *Sydney Olivier.*) I am afraid I cannot tell you that off-hand.

Chairman.

808. Will you find out?—Certainly. The rooms which are closed are for the most part being used by Government officers for other purposes, although they are closed to the public as a museum.

809. You mean that therefore the service and the lighting has to go on?—Yes, so I am informed, but I will look into the matter.

Mr. *McKinnon Wood.*] That should be a charge against the Department which incurs the expenditure.

Mr. *Haslam.*

810. Was the Museum closed to the public during the period under review?—Parts of it were.

811. Were they closed under the impression that there would be a large saving of expenditure, and now we are informed that such a saving has not occurred?—The servants of the Department are kept on, but are employed for war purposes.

812. Are there not sections of the Museum still not used for war purposes which might be open to the public without any increased cost?—I am afraid I do not know sufficient about the Museum to answer that, but I will take a note that the Committee shall have further information about it.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

Mr. *Leif Jones.*

813. I see that the Estimate for rents from houses is £4,500, and the actual realised amount is £5,534. Have you been re-letting the houses, or why is there that increase?—We have a statement showing the improved rents at which property has been let; that is a statement of new arrangements with regard to the letting of property for the year ended 31st March, 1917. Some leases have apparently expired, and they have been re-let at better rental. That is part of the explanation. The details are here and they might be gone into.

814. May I see that statement?—Yes (*handing the same to the right honourable member*).

Chairman.

815. You are going to send us some further information about this?—Yes.

ON VOTE 3.

NATIONAL GALLERY.

Mr. *Higham.*

816. With regard to sub-head A on page 256, "Salaries, wages, and allowances," I understand, although half the rooms are closed, yet the Vote is increased. Can we have a report on that also?—(Sir *Sydney Olivier.*) Yes.

Chairman.

817. You might let us have an answer with regard to all these different Votes, Sir Sydney?—Certainly. The same provision is made on the Estimates of the current year.

818. We should like to know about this last year?—It is evident that the staffs are maintained, but I will look into it with regard to all these collections.

ON VOTE 9.

PUBLIC EDUCATION, SCOTLAND.

Sir JOHN STRUTHERS, K.C.B., called in; and Examined.

Chairman.

819. (To Sir *John Struthers.*) Referring to Subheads O1 and O2 in connection with grants for the training of teachers, you cannot get the people to train under O1?—We cannot get men, and the number of women has diminished also.

820. You cannot get the people to train, and therefore the work is diminished?—That is so.

Mr. *McKinnon Wood.*

821. Can you give us an idea of the total normal cost of the training of teachers? Have you got the figure in your head?—No, I could not give it at present, but I can find it out and send it along.

822. I mean including grants of all kinds?—I do not think one could do that very well; it would have to be gone into specially.

Mr. *Leif Jones.*

823. On Subhead M on page 265, I notice there is a large underspending on the grants for Continuation Classes and Secondary Schools?—Yes.

824. Does that tendency continue—still getting fewer?—Yes, it does; the Continuation Classes go up to 18, and contain many adults, and these are very greatly diminished. The expenditure on the Central Institutions, such as the Technical Colleges in Edinburgh and Glasgow and other similar institutions, has greatly fallen off.

825. Why is that?—Because the men are away, and a large number of the teachers are also away. The older men are still left.

826. It is not that the students would not come if the classes were held?—I should not think there is the least reason to expect that. The classes are diminished

Mr. *Leif Jones*—continued.

simply because the great bulk of the students who attended them are on military service.

827. I thought they were up to eighteen—But they go beyond eighteen.

828. There is just this point, did you reduce your Estimate on account of that?—We have reduced our Estimate, I think, steadily since the war began, but, of course, it is rather a guess-work thing, and naturally one does not know how long the war will last.

829. But you are putting your Estimates down as the war goes on?—Yes.

830. You so far recognise war conditions?—Surely.

831. You endeavour to make an accurate estimate?—As accurate as one can in the circumstances.

832. You find that is desirable?—It did not occur to me that anything else was possible or reasonable.

833. Have you had no communications from the Treasury about it?—I cannot say that I have. I think probably that I have complied with the directions of the Treasury, if there were any.

833. Have you had any communication from the you were to form your Estimates as if there were no war going on, that is on the pre-war basis?—I do not know; I will enquire into this, but my impression is that we tried to get at what would be the figure that it would cost us in the year to come.

835. A real estimate?—Well, a real estimate, as far as one can make it real.

836. I think that is only right and proper; but it is not according to the Treasury letter, I understand?—I hope I have not disobeyed the instructions of the Treasury in the matter.

837. I think you have?—I should be sorry to think I have.

(*Sir John Struthers withdrew.*)

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

CLASS VI.

ON VOTE 1.

SUPERANNUATION AND RETIRED ALLOWANCES.

Mr. C. LLEWELYN DAVIES, C.B.E., called in; and Examined.

Chairman.

838. (To Mr. *Llewelyn Davies.*) As to those foreign grants you made, Mr. Davies, under the extra statutory gratuities on page 309, you satisfy yourself that they are correct. There is one at Hong Kong and another at Malta Dockyard, for instance?—No special inquiry is made by the Pay Office; it is simply a question of carrying out the directions of the Treasury.

839. The Treasury have satisfied themselves upon these, Mr. Wilkins?—(Mr. *Wilkins.*) It is more a matter of discretion. The Treasury satisfy themselves that they are justified by the circumstances, and they are set out here so that Parliament may be fully aware of what is done.

840. The Treasury get all particulars as to the circumstances, and thoroughly inform themselves of them?—Yes.

Mr. *Leif Jones.*

841. Just one general question, Mr. Davies; do the superannuation allowances continue to be less than anticipated?—(Mr. *Davies.*) That is so. The amount of the Vote as a whole has been decreasing since the war began, and in particular the subhead for Superannuation.

842. That is because men who might be superannuated have remained on in the service?—To a large extent that is so, and also because pensioned officers are recalled to service, and in those cases their pension is either suspended altogether or reduced under Section 20 of the Superannuation Act, 1834, which, of course leads to a reduction of the charge on the Superannuation Vote.

843. What is the ultimate effect of a man continuing beyond the superannuation age, say another five years? Supposing he goes on another five years, will that mean a larger superannuation allowance when he leaves?—The amount of his pension is not altered in any case; when he reverts to pension, he reverts to the same rate of pension as was originally awarded; but during his re-employment the pension is liable either to be suspended altogether or to be reduced.

844. In fixing his salary do you take into account the fact that it is prolonged service?—For his salary in the new office?

845. When he remains on?—He is not paid by increasing his rate of pension.

Mr. *Higham.*] I think Mr. Davies is not quite understanding my right honourable friend; I think Mr. Davies is thinking that the men are called back from their pension to service, whereas you mean the men who have been retained for a longer period.

Mr. *Leif Jones.*

846. I mean a man may go on in the service who might be superannuated, that is to say, when the man reaches his superannuation age, instead of retiring and drawing his pension he remains at work; what is his rate of pay? What consideration is shown to him for the fact that he works longer than he had undertaken to do?—That is a matter which is decided entirely by the re-employing Department. I do not think the Pay Office is concerned with the rate of pay at which the man is re-employed except so far as it affects the question of whether his pension is to be reduced.

847. During the period of the employment?—Yes.

848. In any case he does not get his pension increased because he works longer?—If he has not already on reaching the age of sixty-five earned full pension, he is able to earn more.

849. But if he has already earned full pension?—Then further service does not entitle him to any increase of the full rate of pension.

850. And is no consideration shown to him for these extra years?—For anything I know, the salary may be raised by his own Department.

851. That would seem to involve two rates perhaps for men doing the same work merely because they were differently situated relatively to superannuation?—(Mr. *Wilkins.*) There may be cases where the man had not already served forty years, and in that case the pension would go on increasing.

852. He does get some consideration for going on, but what consideration does the man who has already served forty years get?—The amount of his effective salary as opposed to the pension.

Mr. *Haslam.*

853. He gets both?—No, he gets the effective salary.

854. And not the pension?—He has not the pension.

855. But after he has been pensioned and takes back his duties, what does he get in that case?—That is a different case.

856. That is a case as to which we might have an answer. What happens when a man has been pensioned, and then goes back again to his original duties, does he receive in that case both his salary and the pension?—Without committing myself to any general statement about it, the probability would be that he would receive the difference—that is the most usual practice—between his pension and his former remuneration. (Mr. *Davies.*) He is entitled to receive the pay of his new employment and so much of his pension as with that pay will raise him to the amount he was receiving at the time of his original retirement.

Mr. *Higham.*

857. Reverting to my colleague's question as to the man who is continuing in the service for some years, I suppose it acts in two ways; he receives the full salary, that is, the maximum salary he can receive at that age, and we save the pension entirely?—The pension charge is postponed.

858. He gets full salary, but no pension?—Not while actually serving.

859. There is an arrangement as well, I suppose, that supposing there should be up to the time he has earned his pension no misconduct, if there is any misconduct later he does not sacrifice his pension?—Is the Hon. Member contemplating a case in which a pension has been actually awarded by the Treasury?

860. The retiring age is at sixty-five; at that age a man is entitled to retire on his pension; for the good of the service he does not retire, and something happens afterwards which if it had happened before would have sacrificed or reduced his pension. Has he still to suffer the same sacrifice or reduction if that happens after sixty-five?—I think that is a question which could only be decided by the Treasury.

861. In my own public life I have known of cases in the Police Force which came under a Watch Committee, and I was wondering whether it was the general rule?—(Mr. *Wilkins.*) The pension, I imagine, would be awarded in the light of all the circumstances in the knowledge of the Treasury at the time.

862. It always struck me that the man had earned his pension at sixty-five.

Mr. *Haslam.*

863. I am not perfectly clear on one point. It says here, "Cases reported to His Majesty's Paymaster-General of extra remuneration received by pensioned officers." That would read as if it meant that the remuneration was added to the pension?—(Mr. *Davies.*) That is so, except in the cases marked with an asterisk, in which cases there is an adjustment made under section 20 of the Superannuation Act, 1834.

864. Then your remarks refer to the ones marked with the asterisk?—Yes.

(*Mr. Llewelyn Davies withdrew.*)

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

CLASS VII.

ON VOTE 1.

OLD AGE PENSIONS.

Sir FREDERICK CLARKE called in; and Examined.

REVENUE DEPARTMENTS.

ON VOTE 1.

CUSTOMS AND EXCISE.

Chairman.

880. (To Sir *Sydney Olivier.*) Referring to the Comptroller and Auditor-General's Report on page 356, are you satisfied, Sir Sydney, with the answers you got to your queries on paragraph 2?—Yes, it appeared to us that the Commissioners had acted reasonably in all cases.

881. (To Sir *Frederick Clarke.*) You took all pains, Sir Frederick, to ascertain that this was a bona fide misinterpretation of the Statute and its Regulations?—Great pains were taken.

882. And there are a great many cases which do not come under that?—A great many cases.

Sir *Hildred Carlile.*

883. Might I ask whether the number of remissions of entertainments duty was very large?—Those referred to here were not very large.

884. Either in number or amount?—No. As to amount, in some cases it was impossible to ascertain it. The entertainment had taken place a considerable time before it was found that duty had not been paid, and it was impossible to ascertain what the amount of duty payable was.

885. And the number was not considerable?—The number was not considerable.

Mr. *Leif Jones.*

886. In reference to Sub-head B, on page 353, I see there was a great increase in the salaries, and so on, of which £250,000 was attributable to the war. Why does the war increase it? Is it war services performed?—War services performed.

887. What are those services performed by the Customs and Excise?—In the first place, we have had a number of new Revenue duties, ad valorem duties on motor-cars, clocks, watches, musical instruments, cinematographic films, the duty on matches, and the entertainment duty. Those were additions to our work, which were not provided for in the previous Estimate. Then, in addition to that, before the war, as you know, the Customs Tariff was a comparatively small affair—some 15 or 20 main duties—and the amount of examination that had to be given to the imports and exports of the country by the Customs officer was comparatively speaking small, but since the beginning of the war we have had practically to examine the whole of the imports and exports of the country with a view to ascertaining whether the prohibitions have been carried out, and also to ascertain whether the goods imported were of enemy origin, or whether there were any enemy interests in them. Then we have had the restrictions upon brewing and on the delivery of wines and spirits which have given a good deal of trouble.

888. On that point, does it involve much more trouble? You had before to know how much they brewed, and so on, had you not?—You have always had to supervise the thing. We have had to supervise the thing, but it had to be supervised in a different way. Then we have had the investigation of the claims for additional allowances for Old Age Pensioners, and the investigation of the claims for separation allowances for the Army and Navy. Our duties in regard to aliens under the Home Office have been enormously extended under the Aliens' Restriction Order.

889. Some of these would seem to be war duties, but others are the ordinary collection of Revenue; it is one of the ordinary incidents of the Customs and Excise that

Sir *Hildred Carlile.*

865. (To Sir *Frederick Clarke.*) Referring to sub-head A, on page 325, there is a diminution of 30,000 in the number of the pensioners. Can you say whether that is more than anticipated, or is it about the same as has happened recently?—There is no rule about it; that is to say, the number of pensioners varies very irregularly, and it has varied very irregularly especially during the war.

866. What I want to ask specially was, whether that meant a large diminution, and, if so, whether it arose out of the fact of old age pensioners taking on other occupations, going back to their old activities, and finding that they could work and earn wages, and have done so, and have foregone their pensions for the time being?—Probably that was one of the causes.

867. You do agree that 30,000 is an unusually large number?—It is.

Mr. *Higham.*

868. Are you able to say in which country the decrease of 30,000 occurred, in Ireland, England, or Scotland?—I could furnish you with the figures, but I could not say offhand. I think probably it was in England and Scotland, and not in Ireland.

Mr. *Leif Jones.*

869. There was no increase of the rate of pensions this year?—No, but there is an additional allowance, which is not on this Vote.

870. Does this decrease continue in the current year, do you know, or are you able to form any estimate yet?—Up to the 31st of December last there is an increase of 800 during the year.

871. And you are paying now an increased allowance in certain cases?—That is so, we are paying additional allowances.

872. That we shall get next year?

Mr. *Higham.*

873. That is an increase on the previous year, after the 30,000 decrease was taken off?—Yes.

Mr. *Haslam.*

874. There will be a considerable increase on account of the increased amount being paid?—I do not know whether I should expect it on that account; I suppose that would operate, but of course it depends mainly on the number of persons who attain the age of seventy, and who are entitled on their means, and so on, to an old age pension.

875. I understand that there had been an increase in the pension in many cases?—It is not technically an increase of pension; it is an additional allowance to the old age pensioner, and is not charged to this Vote.

Chairman.

876. With regard to sub-head C, "Sums irrecoverable, £49 7s." There was no estimate of that at all. And you had not any experience in former years of these differences?—They vary so very much that we do not estimate as a rule.

877. It is a very small amount?—Yes.

878. A creditably small amount, I think: it does not vary much, does it?—It varies only within certain limits.

879. That applies to sub-head D, "Extra Statutory Payments," in the same way?—Yes.

REVENUE DEPARTMENTS.
On Vote 1.—Customs and Excise—*continued.*

Mr. *Leif Jones*—continued.

that they should face a change as a result of the Budget?—Certainly, but if you have additional duties imposed, it is quite a possible thing that you cannot collect them without additional staff.

890. It throws out your Estimate, and you have to increase your staff to meet it?—Yes.

891. What was your Estimate for the following year for staff? What did you put down as your Estimate in the current year for salaries under Sub-head B?—We put down £1,892,000.

892. You put on £100,000?—Yes.

893. What was that £100,000 for?—That is for additional staff, or additional overtime.

894. Is that what you expect to spend during the year?—Yes.

895. You do not expect to spend £2,000,000?—I expect to spend on the normal Vote £1,892,000.

896. The normal Vote has increased to £1,892,000, but you expect also to increase the expenditure from the Vote of Credit?—Yes.

897. You distinguish the two in your Estimate?—Yes.

898. What services do you apportion to the war, and what to the £100,000? Do you call the increased allowance for Old Age Pensions a war service?—Do you mean the investigation of the claims to Old Age Pensions?

899. Yes?—No.

900. You have had more work in connection with that, and part of that is in the £100,000?—The investigation of the additional allowances we should consider a war service.

901. I am curious to know how you divide the war services from the others. Is the collection of a new tax a war service?—I should say not.

902. Is the restriction of brewing a war service?—That would be.

903. Could you give me a list of what you call war services?—I think I could.

904. I would very much like to have it?—It would be practically a repetition more or less of what I have mentioned before. The additional Revenue work we should not consider a war service—the ordinary work of a Revenue Department. The additional duties are perhaps due to the war, but still they are Revenue work.

905. The Revenue work you would include in your normal Estimate?—Yes.

906. That seems to me right. I cannot see that the raising of a bigger Revenue which is due to the war is really a war service?—I should not consider it so.

907. That will no doubt continue long after the war, I will not say is forgotten, but has ceased to be?—Probably.

908. So you really do contemplate that as normal?—I do consider that as normal.

909. Do you see any advantage in separating the war services from the other in your Estimates? I do not know that I should put that to you?—You know the arrangement made by the Treasury in these cases?

910. I am ascertaining it by degrees?—We charge to this Vote all the expenditure we incur, which comes within what the Treasury call the ambit of the Vote—that is to say, salaries, travelling expenses and expenditure of that kind, we should charge to the Vote whether it was due to the existence of a state of war or not, but we should mark all the charges that we considered to be due to the existence of a state of war, "Vote of Credit," and if at the end of the year we exceed the amount of the grant, we should have to justify that excess by showing it was due to the expenditure on war services.

911. That relates to expenditure, but I was on the point really of Estimate; I am thinking of the year under review. You must make a double estimate, as it were; you say, "We shall spend on these various services, which are normal, I think you said, £1,892,000, and there is expenditure on some other services which are war services"?—Yes.

REVENUE DEPARTMENTS.
On Vote 1.—Customs and Excise—*continued.*

Mr. *Leif Jones*—continued.

912. Did you put in an Estimate to the Treasury of what you would spend on war services?—Certainly.

913. And you clearly distinguish the war services from the other?—Yes.

914. I wonder, Mr. Wilkins, if you could let me see the Estimate presented for the year 1917-18 by the Customs and Excise Department?—(Mr. *Wilkins.*) May I make a note of the point?

915. Parliament has not had the advantage of seeing this Estimate which has been furnished to you; you suppress it in the Treasury?—I cannot admit the word "suppress."

916. I understand from Sir Frederick Clarke that he presented to the Treasury at the beginning of the financial year, or before the financial year, an estimate which contained Subhead B, "Salaries, Wages, and so on," for normal services, £1,892,000, and for war services certain other items for an unknown amount which he proposed to spend during the year, and to pay for out of the Vote of Credit. I ask whether we might see the Estimate of the amount which the Customs and Excise proposed to spend out of the Vote of Credit, and the Subheads under which it was asked for?—I shall be delighted to look into that point. You would like the Estimate handed in?

917. Yes, please; I should like to have the Estimate handed in?—Of course, the right honourable gentleman is aware that the Treasury are about to issue a White Paper in accordance with paragraph 2 of their minute.

918. That is as regards 1918-19. I want what was actually rendered to the Treasury by the Customs and Excise, when the financial branch was preparing to present to Parliament the Civil Service Estimates for the year 1917-18.

Mr. *Higham.*

919. Pursuing the same point, do I understand that if a new tax were levied because of the war the costs of the new tax are put down as war expenditure?—(Sir *Frederick Clarke.*) No. It is a matter of distinguishing between what is war expenditure and what is not, and the line we have taken is that the administration of new taxes should be treated as part of the normal work of a Revenue Department.

920. I was thinking it was so, because the explanation on page 354 practically says so?—(Mr. *Wilkins.*) There are three things, the normal pre-war expenditure, the normal post-war expenditure, and the expenditure during the war. The question is whether you should compare the first and the last, or the second and the last.

921. There is another point upon the explanation as to Subhead H1 on page 353. There is an item of over £4,000 spent on labels for table waters and so on, and the explanation is that His Majesty's Government decided to suspend the use of them after supplies had been ordered. What has become of them?—(Sir *Frederick Clarke.*) May I explain how that occurred? It was originally proposed in the Finance (New Duties) Bill of 1916 that this duty on table waters should be levied by means of labels affixed to the bottles.

Chairman.] The question is, what has become of the labels?

Mr. *Higham.*

922. What has become of the labels?—The paper which was manufactured but was unprinted we have utilised for the purpose of the stamped wrappers for playing cards; the paper which was printed is at present stored at the Custom House.

923. Do you think it will ever be used?—It was stated by the Financial Secretary to the Treasury at the time that the provision for labels was withdrawn, that the substitution of returns was not a permanent, but a temporary arrangement.

924. Do you not think it would be wise to ascertain, and if in the opinion of the Treasury it was to be permanent

REVENUE DEPARTMENTS
On Vote 1.—Customs and Excise—*continued.*

Mr. *Higham*—continued.

manent this paper might be utilised and worked up again in view of the shortage?—We should certainly not allow the paper to be wasted.

925. Still if it is not to be used at all in this time of scarcity it should go back to be worked up again, and not remain in the cellar?—Yes; it, of course, depends on the opinion of the Government whether the present system, which was adopted in 1916, will be continued, or whether they propose to reconsider it.

Chairman.

926. Mr. Wilkins, the Treasury gave their sanction to this apparently in a Treasury letter; did the Treasury represent to His Majesty's Government that it was a great pity to order labels before they had made

REVENUE DEPARTMENTS.
On Vote 1.—Customs and Excise—*continued.*

Chairman—continued.

up their minds? Did you make any difficulty with the Ordering Department and say, "You should make up your own minds before you order a thing like this"?—(Mr. *Wilkins.*) The head of the Treasury is a member of His Majesty's Government, and I do not know whether he said anything to his colleagues in the Cabinet about it.

927. Are you aware that what I might call the subpersonality of the Chancellor of the Exchequer or his alter ego suggested that anything should be done to the Chancellor of the Exchequer?—I cannot say what communings the Chancellor of the Exchequer had with himself on the subject.

(*Sir Frederick Clarke withdrew.*)

ON VOTE 2.

INLAND REVENUE.

Mr. B. P. MOORE called in; and Examined.

Chairman.

928. (To Sir *Sydney Olivier.*) Referring to the report of the Comptroller and Auditor-General, on page 361, Sir Sydney, what is the result of your communication with the Board of Inland Revenue? Have you had a satisfactory reply with regard to the questions which arose in connection with Death Duty repayments and remissions of interest on Death Duties?—There are several matters, Sir. There is one case in which we have had correspondence with the Inland Revenue in which I am not yet satisfied with the result. We asked for the opinion of the Board's legal advisers, and they stated that certain payments had been made on legal authority. The Comptroller and Auditor-General was not satisfied that it was covered by the section referred to, and he has asked for further information.

929. Could you give us the further information, Mr. Moore?—(Mr. *Moore.*) No, the last time I inquired about it, a day or two ago, the matter was still under the consideration of the Board.

930. With regard to what is said in the Comptroller and Auditor-General's Report as to remissions of interest on Death Duties, that is not mentioned anywhere in the Report, is it?—(Sir *Sydney Olivier.*) No, I think not. The first case, I think, is a case of remission of interest on Death Duties. We pointed out that the Report of the Secretary, Estate Duty Office, adds nothing to the information contained in our papers, and we again requested that it might be stated whether the facts as to the duty covered by the commutation could not have been ascertained from the records in the Department in which the payment was made. It was stated that the facts had not been brought to the notice of the Department. We asked whether the information could not be obtained from the records of the Department, and the reply is, "The records in the Department show that the duty covered by the commutation was succession duty in respect of the real property, and they show no more except that the property has been taken out of settlement." The correspondence shows that the delay in the collection of duty in this case was due to the acceptance, without verification of the solicitor's statement in 1906, that the duty in question had been commuted. The Comptroller was not altogether satisfied with that reply.

931. 1905? Do you know anything about this case, Mr. Moore?—(Mr. *Moore.*) I have not been able to ascertain anything more than we have already told the Comptroller. If there was a mistake it occurred in 1905, and it is rather difficult to find out exactly what the reasons were which prompted the action of the Department at that time. (Sir *Sydney Olivier.*) I presume the reply is that you are not at this time able to say whether it could have been ascertained or not. (Mr. *Moore.*) I am afraid that is the practical result.

932. Then is there anything with regard to the Excess Profits Duty?—(Sir *Sydney Olivier.*) Yes, we have had correspondence in two cases about Excess

Chairman—continued.

Profits Duty. In one case, Beverley, we asked for particulars, and the Board of Inland Revenue did not reply directly to our request, but stated that the character and scope of their requirements as to documents (we had not the necessary documents for audit) must depend on the circumstances in the individual cases, in some of which oral interrogation and inspection of original documents is necessary, and they consider that in certain cases they have no ground for requiring a different mode of evidence from that which has satisfied the District Commissioners for the purposes of income tax, and been accepted by the Board. Under those circumstances we are not able really to conduct a satisfactory audit. We have raised the question whether it is not possible to continue the present system with an intimation to the companies that written particulars may be required later if and when demanded for audit purposes. Our position is that we do not now get the materials necessary for a conscientious audit, and the Commissioners seem to indicate that they are not in a position to assist us to get it.

933. Is that so, Mr. Moore?—(Mr. *Moore.*) I think that is so very largely. As you know, the Board of Inland Revenue are the assessing authorities for Excess Profits Duty, which is quite different from the question of income tax, and a great deal of the material on which the assessment is made is acertained by the District Surveyor from a personal or oral communication with the parties and looking at their private books, which they bring to him or allow him to inspect. The Board are entirely satisfied when the Surveyor, after his inspection of the books and his discussions, reports that the company or firm ought to be assessed at such and such an amount, but it is a little difficult to see how we are to satisfy the Comptroller and Auditor-General in a case like that and to supply him with the evidence on which the assessment has been based.

934. There is the evidence for the Income Tax Returns?—That depends, of course, on the exact nature of the case, and it depends on the evidence which the District Commissioners have required.

935. Sir Sydney, are you asking from the Board of Inland Revenue the same class of evidence about Excess Profits that you asked about Income Tax?—(Sir *Sydney Olivier.*) Yes, practically we want to see the statements. (Mr. *Moore.*) If I may say so, the Comptroller and Auditor-General is not able to audit the assessments for income tax because they are not made by a Government Department at all, but by the District Commissioners of Taxes.

936. You get no information as to the income tax, because the assessments are made by the District Commissioner of Taxes?—Yes.

937. And therefore you have to take their statement, but, Sir Sydney, your idea is that you ought to get something further than that in the case of Excess Profits Duty?—(Sir *Sydney Olivier.*) We have called (I have the minute here) for a number of accounts which our

19 *March* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. R. WILKINS, C.B., and Mr. MOORE. [*Continued.*

REVENUE DEPARTMENTS.
On Vote 2.—Inland Revenue—*continued.*

Chairman—continued.

our Department consider necessary for the purposes of audit. There are at present outstanding in England and Wales three receipts and one repayment, and in Scotland seven receipts. Considerable delay was experienced in obtaining any of the papers called for, as in the opinion of the Board of Inland Revenue they could only be furnished with the consent of the respective bodies of Commissioners of Income Tax to whom they are supplied by the public as a basis for income tax assessment, but ultimately the Board approached the Commissioners on the subject, and all but four from England and Wales have been furnished. In all the Irish cases accounts have been received. From Scotland 29 accounts were called for, of which seven have not been received, as the District Commissioners of Paisley and Glasgow decline to produce them. It is noted that the surveys of Paisley and Glasgow contain a large proportion of the Scotch cases. As a result of correspondence the Board of Inland Revenue agreed on the 1st February, 1918, to approach the Commissioners again with an intimation that, in the event of the documents not being forthcoming, the Comptroller and Auditor-General proposes to bring the matter before Parliament with a view to the necessary action being taken to enforce the production of papers essentially necessary for his audit. The position seems to be that it is held there is not at present sufficient legal power. (Mr. *Moore.*) Perhaps I ought to explain that that matter is not the same question as the one about which you first asked me. (Sir *Sydney Olivier.*) It is a further one. (Mr. *Moore.*) The first question related to a case where, as I said, the Board of Inland Revenue satisfied themselves as to the correctness of an assessment without having any evidence of a kind which one could preserve and produce to the Audit Office. In these other cases the Board's Surveyor under the authority of the Act may use the Income Tax Returns which do not belong to him or to the Board, but which belong to the District Commissioners. They are the property of the District Commissioners, and when the Comptroller and Auditor-General asked for them we replied that we could only produce them with the sanction of the District Commissioners. After some little correspondence we approached the various bodies of District Commissioners concerned, and in nearly every case they were quite willing that the Audit Office should see these documents, but there are two bodies in Scotland who, so far, have refused to do so.*

938. And in the opinion of the Board they are legally entitled to refuse?—I think the Board have no doubt about that question at all. (*Chairman.*) If they are legally entitled to refuse, there is no more to be said.

Sir *Hildred Carlile.*

939. Referring to paragraph 2 of the Comptroller and Auditor-General's Report, does it often happen that certificates are prematurely issued?—I have never heard of another case, as long as I can remember, in which it has been done.

940. Is that many years?—A good many years, anyhow; it is not a thing which happens, and I do not think it could happen in ordinary times. It is simply that under existing conditions the pressure is so great owing to the depletion of the staff that the work has to be done at a much greater speed than it is in normal times.

941. Is not some simple method adopted which shows on the face of the group of papers, or whatever it is that has to be dealt with, whether it is complete or not, so that there should not be the possibility of mistakes such as that premature issue of certificates?—This was a very large and complicated estate, and the file is a pile of papers about that height (*indicating a very large size*), and before the certificate is issued the officer is supposed to make his way right through and satisfy himself that there is no duty which is outstanding.

942. It was not done in this case?—Well, we cannot be quite certain, but it rather looks as though a particular fact as to the estate had been overlooked. The facts are that the duty was paid on this estate on the land apart from the timber, because the duty is not chargeable on the timber until it is actually sold, and in due course a certificate was given to the effect that so far as the information before the office went, all duties had been paid. As a matter of fact, it had happened then (we found out afterwards), that some timber had been sold, and whether that was really within the cognisance of the office or not, at the time is was felt by the office that it ought to have been anyhow, and therefore they probably were stopped from claiming further duty. On the other hand, when the question was raised, the solicitors to the estate pointed out that the actual sales which had taken place showed that the land with the timber had sold for very much less than the land without the timber had already been valued at and paid duty on, so that on the whole the Department were quite satisfied that they had lost no duty, although they admit that the certificate had been issued under a misapprehension.

943. Presumably the beneficiaries were not so satisfied as the Department?—They were quite satisfied that no further claim was pressed, so that everyone was happy.

Chairman.

944. With regard to paragraph 3, Sir Sydney, you are quite satisfied about those cases at the end under (a) and (b)?—(Sir *Sydney Olivier.*) Yes, sir.

Sir *Hildred Carlile.*

945. I would like to ask why the remissions of duty on interest are apparently going up by leaps and bounds?—(Mr. *Moore.*) Simply because the rates of duty have been going up.

946. They follow the same ratio?—Yes, one year the remission will be 2s. 6d., the next 3s., and the next 5s.

947. So that practically there is no increase?—There is no real increase.

Chairman.

948. With regard to paragraph 4, as to these two cases of remission of interest on Death Duties, and the fact that the Public Accounts Committee for 1906 were told that there would be a building and a staff sufficient provided?—(Sir *Sydney Olivier.*) We have inquired into that with the result that the staff was provided, and there were heavy arrears to be overtaken. We cannot take the explanation further than is given in the last paragraph of paragraph 4. (Mr. *Moore.*) I think I can throw some light on it. The secretary of the Estate Duty Office explained to me yesterday that although they began in 1906 they began with the records of the year 1812, and they worked right through to 1872, so that it is natural that it would be some years before they got through it.

949. With regard to paragraph 5, Mr. Wilkins, I see that the Treasury have directed that in instances where there has been an abandonment of a claim for law costs due to the Crown these should be reported to the Comptroller and Auditor-General?—(Mr. *Wilkins.*) That is so; they thought it a convenient way to do it. Perhaps I might say that on paragraph 6 I have instructions to read a memorandum to the Committee.

950. Will you please let us have your memorandum on paragraph 6 now?—My instructions are to read the following memorandum to the Committee: The history of the assessment to Schedule A and House Duty in respect of the ministerial residences in Downing Street is, so far as can be gathered from the records now available, as follows:—Up to the year 1855-1856, inclusive, both Schedule A and House Duty were regularly paid. It is not, however, clear from the records whether for some years prior to 1855-56 the duties were paid personally by the Ministers; a statement in a letter of 1858 by a collector of taxes speaks of the duties being paid for some time by a clerk in the Treasury on behalf of the First Lord and the Chancellor of the Exchequer, and subsequently by the Pay Office under a Treasury Order. It has not been possible

* I have since learned that as the result of further representations there is a likelihood that these two bodies of Commissioners may modify their attitude.—B. P. M.

19 *March* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. R. WILKINS, C.B., and Mr. MOORE. [*Continued.*

REVENUE DEPARTMENTS.
On Vote 2.—Inland Revenue—*continued.*

Chairman—continued.

possible to ascertain when this order by the Treasury to the Pay Office was made. It does, however, appear that the Schedule A tax in respect to the First Lord's residence was at one time paid by the First Lord himself, as the collector of taxes in the letter above referred to states that "Sir Robert Peel paid it when I first collected in this district." The Colonial Secretary had at one time a residence at 12, Downing Street, the Property Tax, on which was paid to 1855-56 inclusive by the Chief Clerk of the Colonial Office out of monies allowed for contingencies. On July 5th, 1858, the Treasury ordered that as the residences of the First Lord and the Chancellor had only been occupied for official purposes and not as residences during the years 1856-7 and 1857-8 the tax for these years should not be paid. From that date the Treasury order appears to have been treated as covering all circumstances and no tax has ever been collected since. So far as can be ascertained, it has never been the practice for the occupants of the Downing Street houses to pay rates. At one period the Office of Works paid the parochial rates of these premises acting under Treasury instructions, and at the present time contributions in lieu of rates are made in respect of these houses out of monies voted by Parliament. This has been brought to the notice of the Chancellor of the Exchequer, and he desires me to point out that 11, Downing Street is used as a dwelling-house. As regards 10, Downing Street, however, which is in the occupation of the Prime Minister, the whole of the ground floor is used as an office, and Mr. Lloyd George does not use the building as a dwelling-house in the ordinary sense of the word. As a matter of fact, he practically uses it for little more than to supply sleeping accommodation for himself throughout the week. In these circumstances, and having regard to past history, the Chancellor of the Exchequer would desire to obtain the views of the Public Accounts Committee as to the proper course to follow.

951. Can you tell me what is the position in the case of the First Lord of the Admiralty and his official residence? He lives in the Admiralty building?—I do not happen to know.

952. He is the only other officer who has a house found for him, is he not?—There has been an arrangement with the First Sea Lord. The arrangement with the First Sea Lord is that the Treasury have consented that during the war he should not be assessable; but no doubt the case of the First Sea Lord would be affected by any views the Committee express

953. The First Lord always lives there, does he not?—I think that is so. (Mr. *Moore.*) He is not living there now, I think. I believe we never assess the First Lord of the Admiralty's house. (Mr. *Wilkins.*) I now beg to hand in a Memorandum with regard to allowances for private secretarial work to officers employed with the forces. (*Handing in the same.*) [*Vide Appendix No. 4.*]

Thursday, 11th April 1918.

MEMBERS PRESENT:

Mr. Baldwin.	Sir Charles Henry.
Mr. Reginald Blair.	Mr. Higham.
Sir Hildred Carlile.	Colonel Sir Herbert Jessel.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Haslam.	Sir Robert Williams.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

Sir SYDNEY OLIVIER, K.C.M.G., C.B., and Mr. ROLAND WILKINS, C.B., called in; and Examined.

Mr. *Wilkins.*] I beg to hand in a Memorandum on the Estimate furnished by the Customs and Excise Department of the expenditure required out of the Vote of Credit which was asked for by the Right Honourable gentleman the Member for the Rushcliffe Division. (*Handing in the same.*) [*Vide Appendix No. 5.*]

Chairman.

954. (To Sir *Sydney Olivier.*) I think at the last meeting of the Committee, Sir Sydney, you were asked some questions with regard to the staffs of the National Gallery, etc., and that you said you would get some information with regard to them?—Yes, sir, I have received statements from the Director of the National Gallery, and also from the Wallace Collection and the London Museum, which I will put in. (*Handing in the same.*) [*Vide Appendix No 6.*]

955. I think there was also something on the Inland Revenue Vote on which you were to make a statement?—Yes, sir. There are two points connected with Excess Profits Duty in regard to which the Comptroller and Auditor-General has been unable to procure documents necessary for his audit. One point has arisen in a case in which liability to Excess Profits Duty was determined by the Surveyor from an inspection of the taxpayer's books. The accounts required are those for the accounting period and pre-war periods, which the

Chairman—continued.

Commissioners of Inland Revenue, who are the assessing authority, are empowered under Section 44 (1) of the Finance (No. 2) Act, 1915, to call for. In reply to a request for such accounts in the case in question the accounting officer stated that the Board of Inland Revenue were satisfied and could not now require the company concerned to furnish these documents. On a further inquiry whether arrangements would be made so that in similar cases in future the necessary documents may be forthcoming when required for audit, the Accounting Officer furnished a copy of a minute by the Board of Inland Revenue practically saying that it was not within their power to do it.

956. Not within their power?—I need not read the whole Minute, but it says "Where such questions have been decided by the District Commissioners of Taxes (the authorities by whom income tax assessments are—by statute—made) upon certain evidence, and the Board have been satisfied with the correctness of that determination, the Board have no ground for requiring a different mode of evidence in that connection before making an assessment to Excess Profits Duty." The procedure set forth in this Minute may be satisfactory from the Inland Revenue point of view, but it renders direct audit impossible. The Public Accounts Committee might be disposed to suggest that there should

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

Chairman—continued.

be a conference between the Treasury, the Inland Revenue Department, and the Exchequer and Audit Department, with the view to some arrangement being come to in the matter, of the result of which the Committee should be informed. That is what the Comptroller and Auditor-General suggests. That is one point. The second point has reference to the general question of the examination of Excess Profits Duties. The initial step was to ask for the accounts in certain selected cases. Except in two cases the documents furnished in reply did not include the Profit and Loss and Trading Accounts with balance sheets for the accounting and pre-war periods. In reply to a further reference sheet calling for these particulars it was stated that the accounts, having been furnished for Income Tax purposes, were the property of the District Commissioners of Income Tax, and were not therefore at the disposal of the Board for production to the auditors. The Comptroller and Auditor-General pointed out that under their departmental instructions Surveyors obtained such accounts which in two cases had been supplied with Excess Profits Duty Returns. In reply, the Board of Inland Revenue considered that they were precluded from supplying accounts which were the property of the District Commissioners. The point was further pressed,

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

Chairman—continued.

and in some cases the documents were produced, but the Commissioners of Paisley and Glasgow declined to permit the production. As a result of further correspondence the Board of Inland Revenue agreed to bring pressure to bear on these Commissioners to produce the required accounts, and to intimate to them that the Comptroller and Auditor-General had stated that if they are unable to modify their present view it will become his duty to bring the matter before Parliament for any action they may think fit. The question has not yet been settled. The Public Accounts Committee may desire to be informed of the result by the Comptroller and Auditor-General in due course.

957. (To Mr. *Wilkins.*) Did this come to the Treasury at all, Mr. Wilkins?—I think this is mainly a matter between the Inland Revenue and the Audit Office, and I suggest that anything that may be taken up should be taken up by those Departments first, and, if necessary, the question of reference to the Treasury may be considered later on.

958. You have not had it before you?—No. I heard, of course, what passed at the last meeting.

959. But there has been nothing more than that. You will put in that statement, Sir Sydney?—(Sir *Sydney Olivier.*) Yes. (*Handing in the same.*) [*Vide Appendix No. 7.*]

CLASS II.

ON VOTE 29.

BOARD OF AGRICULTURE, SCOTLAND.

Sir ROBERT P. WRIGHT and Mr. J. HANDFORD, called in; and Examined.

Chairman.

960. (To Sir *Robert Wright.*) Referring to the report of the Comptroller and Auditor-General upon page 154, Sir Robert, as to the question of the excessive payment under the Land Settlement Scheme, I think you are going to tell us something more about that?—The position with regard to that scheme is that an arrangement was made, as is usually done in similar cases, to pay the landlord a capitalised sum as compensation for any reduction of rent between the commercial rent at which the farm was valued when it was taken over to be separated into small holdings, and the amount of the fair rents to be subsequently fixed by the Land Court. In this case it unfortunately and unexpectedly happened that the Land Court decision as to the amount of the fair rents fell considerably below the estimate of the Board's advisers.

961. The estimate of the Board's advisers was £96?—They estimated the fair rents as likely to be £96, and the Land Court fixed them at £64. That, let me say, was quite contrary to the experience the Board had hitherto had. We had no reason to anticipate that there would be such a discrepancy between the judgment of the Land Court and the judgment of our Commissioner for Small Holdings, and the arrangement was made in the belief, which our previous experience warranted, that the Board's staff would have estimated the fair rents at approximately the same figure as the Land Court was likely to do. The scheme was accordingly given effect to. The tenants received entry, and at a subsequent date the Land Court fixed the fair rents. In accordance with the terms of our agreement we had to pay the landlord the capitalised value of that difference as compensation.

962. Under what sort of circumstances did your officers come to agree to such a large figure as £96, when the Land Court said £64?—That is really impossible to explain, there is just a very decided difference of opinion between the Land Court and our officers on the point.

963. Was it made a condition by the landlord that he would not deal at all unless it was fixed at a certain arbitrary rate?—He would not deal unless the value of the farm was fixed at £130.

964. And your representatives agreed to that value?—Yes, that is so.

965. Were they satisfied that it was the value, or

Chairman—continued.

did they agree to that figure to get the deal through?—I think they were satisfied that it was the value. The farm in question, according to my information, was formerly let at a rental of £200, and the proprietor stated that he would not let it again at less than £150, but that he was prepared to meet the Board so far by consenting to £130 as the figure.

966. Is the land usually let at anything like the same figure to allotment holders?—Our small holders generally have the rents fixed by the Land Court.

967. Was that figure fixed by the Land Court to meet the circumstances of the small holders, what one might call a political rent or a farming rent?—It is not a political rent; the word political is not applicable.

968. When I use the expression "political rent" I mean to suit the circumstances of the small holders, or was it the actual rent of the land?—You see the landlord normally lets his farm at what one might call a commercial or competitive rent. The Land Court fixes what under the Act is designated as a fair rent, and the fair rents in general fall considerably below the ordinary commercial rent. The landlord says that his farm has a commercial rent, and that if we are going to impose small holders upon him and to reduce his income by giving him only fair rents, we have got to pay the difference, and that we do.

969. And this sum of £635 represents that difference?—That represents the capitalised difference between the £64 and the £96. Yes.

970. The landlord has parted with the land altogether?—No, only in the sense of the Small Holdings Act. He still remains landlord, and he gets the fair rents. He remains the landowner as before, but his tenants are secured tenants, whose rents are fixed by the Land Court.

971. Those rents are liable to alteration by the Land Court?—Yes, every seven years.

972. But supposing it rose from £64 to £84, and the landlord therefore got more rent, would he be liable to repay to the country the difference?—I am afraid not; we have not had such a case, and that is not anticipated certainly.

973. Supposing that to be the case (I have known allotments given up myself, and you give them up in the North Country, too), and the farm went back to the landlord?—There is such a large demand for small holdings

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 29.—Board of Agriculture, Scotland-*continued.*

Chairman—continued.

holdings in Scotland that we have no experience of such an occurrence; there are always plenty of applications—in fact, far more than we can supply—for small holdings.

974. In every locality?—I think so. (Mr. *Handford.*) They cannot be given up without the consent of the Board.

975. Supposing they were given up and the Board said they ought to go back to the landlord (they might be given up because of the population moving or something of that kind), the landlord would then obtain what he called his commercial rent again?—(Sir *Robert Wright.*) He might conceivably.

976. Has that been guarded against at all?—No, that point is not guarded against. It does not fall to me to give reasons for the Act of Parliament, but it is not guarded against.

977. Neither in the Act nor in practice?—In practice it does not occur—it has not occurred—and, of course, the landlord has to run the risk of rents falling as well as rising.

978. In this particular case your representative had satisfied himself that what you might call, not the commercial rent, but the fair rent was £130, and the Land Court were therefore grossly misinformed in putting it at £64?—That is the difference of opinion between us. We say that our advisers' judgment was sound. The Land Court, no doubt, will say the contrary. (Mr. *Handford.*) £64 is the rent for the land alone, exclusive of buildings and equipment.

979. Who has got the buildings?—The small holders take the buildings. The cost of the buildings is included in the compensation paid to the landlord. We take the buildings and resell them to the smallholders.

980. So that the Commissioners have made something out of it?—The fair rent is the rent of the land unequipped. The farm rent is the rent of the land equipped with buildings, fences, dykes, and so on.

981. Do they pay anything further to the Commissioners for the use of the buildings?—The small holders? They purchase them by loans repayable in fifty years.

982. So that the State gets back part of this £635?—That was an additional payment of compensation, and the total sum paid is £2,000, of which £1,100 is in respect of the buildings. We get back a proportion of that from the small holders.

983. The rent of the farm, £150, was the rent of the farm buildings and all?—That is so.

984. And you paid the landlord, therefore, for the buildings?—That is so.

985. And you paid him a rent based on the value of the buildings into the bargain—in fact, you bought the buildings from him, and then you said, "We have paid you a capital sum on which you get interest, and yet we are going to pay you a sum down for the use of the buildings for which we have paid you"?—(Sir *Robert Wright.*) No.

986. That is so, surely?—(Mr. *Handford.*) The theory of the thing is that we purchase the buildings, and then we calculate what is the loss of letting value, taking into account the interest he will get on the money paid for the buildings.

987. That was not the case that Sir Robert Wright put to us; what Sir Robert Wright said was that the landlord said, "I could have let this farm for £150, but I do not want to be too hard on the Board, and I will let you have it for £130," and that has nothing to do with the money you paid for the buildings at all; that is what Sir Robert Wright said?—(Sir *Robert Wright.*) I was not dealing with that point.

988. No, but I am adding this point to yours?—In paying the landlord the capitalised value of the difference between the fair rents and the commercial rents, we first of all deduct the portion of the rent which is applicable to the buildings according to the value at which we purchased.

989. You do not seem to have done that now?—Yes.

990. You mean that the £130 was the commercial

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 29.—Board of Agriculture, Scotland-*continued.*

Chairman—continued.

rent minus the value of the buildings?—No, with the value of the buildings.

991. Is the £96 minus the buildings?—Yes, that was the estimate our staff made of the value minus the buildings.

992. What the Committee are now dealing with is the capital value of the difference between the £64 and the £96?—Yes.

Sir *Hildred Carlile.*

993. What is the difference between a fair rent and a cumulo fair rent? Is the one a commercial rent and the other a Land Court rent?—(Mr. *Handford.*) The cumulo fair rent there is the rent of the whole of the holdings; it is just used as a term bringing the whole of them together. (Sir *Robert Wright.*) It is not the fair rent of one of the specific holdings, but of the whole of the holdings. (Mr. *Handford.*) It is the cumulo rent for the twelve holdings.

994. That is dealt with in both cases, is it?—(Sir *Robert Wright.*) Yes.

995. The expression does not appear in the first case; as fixed by the Land Court, it is not called the cumulo fair rent?—I do not see the sentence.

996. I thought the conditions might be somewhat different, as I am not familiar with the Scotch terms.

Mr. *Leif Jones.*

997. Do you ever make any money out of your transactions?—It is not our business to make money—we cannot make money.

998. So that if you make a mistake you bear the penalty of the mistake, but you get no benefit from having made a very good investment; the tenants get any benefit?—The tenant or the landlord, as the case may be.

Sir *Charles Henry.*

999. When there is a difference like this between the Land Court and your Commissioners, is any third party called in to arbitrate?—No, the Land Court is the final authority.

1000. In this case surely the Commissioners were the final authority?—No; the Commissioners estimated to the board that the fair rents would be such and such a figure, but the Land Court is the authority which finally determines what the fair rents are to be.

1001. The landlord decided that the fair rent should be £64 5s.?—No, the Land Court; that is the final authority.

Mr. *Higham.*

1002. I think what Sir Charles Henry means is that the final authority as between you and the landlord was the Commissioners?—No, it is the Land Court.

1003. You got the Commissioner's estimate; you say that your Commissioner fixed £96?—The Commissioner estimated £95.

1004. And on his estimate you made your contract with the landlord?—That is so.

1005. And that was final as between you and the landlord?—Yes.

1006. Why should you not have said to the landlord: "Twenty years' purchase, yes, but we must wait till the Land Court has fixed the rent"?—Because that involves so much delay that in practice it would block the progress of the scheme altogether.

Sir *Charles Henry.*

1007. In this case the landlord had fixed the rent at £64?—No. The entry of the tenants was at Whitsunday, 1915. The rents were actually fixed by the Land Court some time in 1916.

1008. At £64?—Yes.

1009. Then your Commissioners fixed them at £96?—The Commissioners had arranged for the prior entry of the tenants, and in point of fact, as I said, it would be practically impossible in many cases to wait for the decision of the Land Court before the entry of the small holders.

1010. I really cannot follow this—I may be very dense. You paid the landlord £635 of compensation?—

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 29.—Board of Agriculture, Scotland—*continued.*

Sir *Charles Henry*—continued.

Yes, on one item. (Mr. *Handford.*) That is an additional sum after the Land Court fixed the fair rents.

1011. Yes, but if the Land Court is the final arbitrator, and they fix a sum less than what was originally fixed by the Commissioners, why should any compensation be due?—(Sir *Robert Wright.*) Because we have to pay the landlord according to the terms of our agreement the capitalised value of the difference between the commercial rent and the fair rent which would be ultimately fixed by the Land Court. We could not tell what that sum would be until the Land Court actually fixed the rents.

Sir *Henry Craik.*

1012. You mean you made a bargain with the landlord that you should pay a certain rent, and in making that bargain you further bargained that if the ultimate rent should be smaller you would pay compensation for what he lost?—No, that is not quite correct, Sir Henry; we did not make any bargain with the landlord to pay him any rent. We do not pay any rent at all.

1013. I mean the rents that the small holders should pay?—We cannot even fix the rent the small holders will pay; that is a matter of arrangement between the small holders and the landlord or a matter for the Land Court, but the Board cannot fix these rents. The authority is the Land Court. All we can do is to say to the landlord in making an arrangement, "We will pay you the capitalised value of the difference between the commercial rents and the fair rents which the Land Court will fix."

1014. Even although you contemplate that the Land Court, when referred to, may fix a smaller rent, as presumably the rent they considered just, you agree with the landlord that if he should be a loser you will make it up to him?—Not quite in contemplation of that; on the contrary, as I stated before you came into the room, we have, generally speaking, found that the Land Court estimate of the fair rents corresponded very closely with the estimate of the Board's officers. This was one case in which there was a wide discrepancy.

1015. If the Land Court fixes a lower rent as fair, presumably the Land Court would not fix an unfair rent, so that it would be the proper rent?—According to their judgment.

1016. According to the judgment of those in whose hands the Act of Parliament has placed the judgment?—Yes.

1017. What reason is there for telling any landlord, "If we make a bargain with you, and the Land Court afterwards thinks we have made a bargain too much in your favour, we will take the burden upon ourselves"?

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 29.—Board of Agriculture, Scotland—*continued.*

Sir *Henry Craik*—continued.

—Because we could not make an agreement with him on any other terms; we could not enter into possession or place the smallholders there in this case except by agreement. We had no compulsory powers.

Sir *Charles Henry.*

1018. What was the object of referring to the Land Court at all?—Because the Land Court is the body constituted by Parliament to fix the rents for smallholders.

Chairman.

1019. Did you ever make any bargain of this sort with other people?—Yes, this is quite the ordinary practice. There is no other way of making an agreement with the landowners for the constitution of small holdings.

1020. Will you elucidate this point to me? Supposing this land which was let for small holdings had been let to a tenant, and that tenant had taken the landlord into the Land Court, the Land Court then, I presume, would still have reduced the rent to £64?—Presumably. (Mr. *Handford.*) A sitting tenant at this rent could not go to the Land Court; he must be a smallholder.

1021. None but smallholders can go to the Land Court?—No.

Mr. *Leif Jones.*

1022. When you let the land to the smallholders was anything said to them about rent?—(Sir *Robert Wright.*) I have no doubt the matter was discussed, but they always expect the Land Court to fix rents.

1023. You do not happen to know whether they were content with the larger rent?—No. I have no reason to suppose that they would not have accepted the larger rent.

1024. Have you any reason to suppose anything about it? Was the point put to the tenants?—We do not attempt to do that; we throw the onus on the Land Court of fixing rents.

1025. You never, in letting land to the tenants, make any suggestion to them as to what the rent is likely to be?—We have done so in an estate belonging to the Board. We had a very early experience where the Board purchased an estate, and where they divided a large farm into small holdings, and let it to a body of tenants at rents they agreed to. Within twelve months they appealed to the Land Court to fix the rents, and they would not pay the rents until the Land Court fixed them.

Mr. *Haslam.*

1026. I take it the principle is that no tenant should pay more rent than a smallholder?—In practice the commercial rents which are not fixed by the Land Court are higher than the fair rents that the Land Court fixes.

(*Sir Robert Wright and Mr. Handford withdrew.*)

CLASS IV.

ON VOTE 1.

BOARD OF EDUCATION.

Mr. H. W. ORANGE, C.B., C.I.E., called in; and Examined.

Chairman.

1027. (To Mr. *Orange.*) Referring to the first paragraph of the Report of the Controller and Auditor-General on page 252, I presume these regulations are part of the statutory powers of the Board of Education as to the grants and the amount of the grants?—Not the statutory powers, sir; the powers of administering grants. The money is voted by Parliament, but the regulations under which it is disbursed are laid before Parliament. They are not made by Parliament.

1028. They are laid before Parliament after the money has been granted?—They are standing regulations, and any alterations in them are laid before Parliament.

1029. They are the Code really?—This is not the Code—that is a separate thing; but these are grants for higher education.

Sir *Hildred Carlile.*

1030. I should like to ask whether the lessening of the number of students did as a matter of fact produce any saving at all. The Report of the Comptroller and Auditor-General rather implies that there was no saving as a result of the reduction in the number of students. Was that the case, do you think?—I find the statement itself rather confusing. It is quite correct that the grants to Universities in respect of the technical work they were doing were paid at the rates which had been fixed for 1913-14. The students had gone from the Universities, and there had been a large diminution in their number. The expenses had not, however, materially fallen.

1031. The staff would be the same?—It would be the same subject to such alterations as the war and the times brought about. We paid the grants to the Universities

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 1.—Board of Education—*continued.*

Sir *Hildred Carlile*—continued.

Universities of the same amounts we had paid for 1913-14. We announced by regulation that we should do so, and we laid that regulation. The auditor's statement about that is perfectly accurate. I do not think he has accurately stated what has been done with respect to the technical schools; it is not correct that the grants paid in this year to the technical schools were based on the returns of an obsolete year. They were based, as usual, upon the returns of the year last ended, and it is not correct if this paragraph implies it, that in the ordinary course those grants would have been paid on the student hours; they would not.

1032. It does rather imply that, does it not?—It seems so. They were paid on the same basis as usual.

1033. Which is?—It is an assessed grant which takes into account the expenditure and the work and the number of students; in other words, the quality and quantity of the work. It is correct there had been a fall in the number of students, and there had been some fall in the expenditure.

1034. But not in proportion?—No; the fall in the expenditure was not in proportion.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 1.—Board of Education—*continued.*

Sir *Charles Henry.*

1035. I would like to ask a general question. There was a reduction in the expenditure compared with the grant of nearly £300,000. When framing your estimates for the following year, 1917-18, did you base them on your expenditure 1916-17, or on the previous year?—The Estimate for 1917-18 would have to be framed before the accounts were completed for 1916-17. The Estimates are prepared in October for the year which begins on the 1st of April following, so that the accounts we should have before us would not be those of the year then current, but of the year that had ceased six months previously.

Chairman.

1036. This does not arise out of the Report, but you are engaged in making certain catalogues; have you made any progress with them during the year?—That has all been put on one side, because many of the Staff have gone on other service. It has been worse than put on one side, as articles have been disturbed in place, and the inventories not revised to show the movements; they have slipped back.

(*Mr. Orange withdrew.*)

CLASS VII.

ON VOTE 2.

NATIONAL HEALTH INSURANCE JOINT COMMITTEE.

Mr. HENRY N. BUNBURY, C.B., called in; and Examined.

Mr. *Leif Jones.*

1037. (To Mr. *Bunbury.*) There is a very large surplus under Subhead F., Mileage Grants. You spend only about two-thirds of what you estimated. What was that due to?—I should say mainly to war conditions. The necessary calculations to enable the claims to be made were not completed within the financial year. It is a slowing down due to the war. It is not that the liability was less, but the amount which came in course of payment during the year was less.

1038. And you had to take the money in the following year?—That would be so.

1039. What did you take under that Subhead in the current year?—We took £55,000 in 1917-18, and £74,000 in 1918-19.

1040. Why is that grant increasing so rapidly?—In 1918-19? Perhaps I should explain.

1041. Will you?—The standard grant, so to speak, is £50,000 a year; it has since been increased in the current financial year to £75,000 owing to the increase in the cost of petrol and the increased amount of travelling which doctors have to do owing to the depletion of the profession. The Treasury have sanctioned a 50 per cent. increase in the grant.

1042. That is an excess grant to the doctors by the Treasury?—That is so. That applies to this financial year 1918-19, but subject to that 50 per cent. increase

Mr. *Leif Jones*—continued.

which has just come into operation, the standard grant is £50,000 a year. The amount which comes into any particular Vote depends, of course, on how far the claims can be formulated within the year.

1043. Under what authority do the Treasury grant a 50 per cent. increase to the doctors for their mileage grants?—Under the authority of the Act of 1913; the National Health Insurance Amendment Act of that year, Section 1.

1044. Was a definite power given to the Treasury to increase the grant to any extent, or to a limited extent? The Act of 1913 did not contemplate the increase of prices due to the war?—No, but the Act of 1913 abolished the old statutory limitation. The Right Honourable Member may remember that in the Act of 1911 it was provided that the cost of National Insurance should be met as to seven-ninths or three-fourths from contributions, and as to two-ninths or one-fourth from the Exchequer, and then Section 1 of the 1913 Act enabled sums to be paid in excess of those proportions. That was a general enabling power.

1045. Do you mean to any extent?—So far as voted by Parliament, but I should add that this 50 per cent. increase was applied to 1917-18 by a Supplementary Estimate which I think has been voted.

(*Mr. Bunbury withdrew.*)

ON VOTE III.

NATIONAL HEALTH INSURANCE COMMISSION (ENGLAND).

Mr. L. G. BROCK, called in; and Examined.

Chairman.

1046. (To Mr. *Brock.*) There is no Report by the Comptroller and Auditor-General, but can you tell us anything on the note on page 333. Is that going on at all—contributions being erroneously paid in respect of persons under sixteen?—It must always go on to a certain extent, because there are constantly cases in which an employer may not be able to get reliable information as to the age of a young entrant.

Chairman—continued.

1047. And the result would be so small that the Commission thought themselves justified in treating these as insured persons?—It is not appreciable.

1048. Neither under that nor under the second part of the note?—The same would apply there; it would always go on to a certain extent.

1049. And the loss is not really appreciable?—That is so.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote III.—National Health Insurance Commission (England)—*continued.*

Sir *Charles Henry.*

1050. I would like to ask if you could tell us how the benefits for sickness compare in the different parts of the United Kingdom?—I am only answering for the English Commission, I have not got detailed figures of the other Commissions.

1051. We have got the figures here. As to the proportion of population, can you say how the different parts of the United Kingdom compare as to proportion of benefits?—I am afraid I am not prepared for that question, and I should not like to answer it off-hand.

Chairman.

1052. Can you tell us anything about the other Commissions; for instance, about Wales?—No, I can only answer for the English Commission.

NATIONAL INSURANCE ACTS, 1911 TO 1915 (NATIONAL HEALTH INSURANCE).

Chairman.

1053. (To Mr. *Brock.*) With reference to paragraph 2 of the Report of the Comptroller and Auditor-General, on page 36 of the White Paper, can you tell us if it has yet been found possible to fix that date?—The account as regards the expenditure of Committees is practically ready; as regards the expenditure of Societies there are still accounts not yet complete. The introduction of the Act of 1913, which altered the position as regards Societies operating mainly in one country, but with certain members in other countries necessitated a considerable reconstruction of the accounts of Societies which, having been approved as International, subsequently elected to become national. I should not like to give the date when that account will be complete, but the Committee account is practically ready.

Sir *Hildred Carlile.*

1054. Are there any approved Societies whose accounts are still very inaccurate?—The position has very much improved; a great many Societies which made a very bad start in 1912-13 have now been pulled together. I would not like to say that all the accounts are yet satisfactory, I can only say that the position is much better than it was.

1055. In the period under review there were only two cases which were mentioned as being deficient. Is the present position equally satisfactory, because that is relatively satisfactory, is it not?—There were two cases to which special attention was drawn. Those cases have been remedied.

1056. There were others?—There are other cases alluded to in the Report of the Chief Auditor.

1057. Which are not dealt with?—Which arose in the succeeding year. I understood you were asking me how the two years compared.

1058. I wish to know the position in the period under review and also since?—Generally the position has very much improved.

NATIONAL INSURANCE (HEALTH) ACTS, 1911 TO 1917.

FOURTH REPORT ON THE WORK OF THE NATIONAL INSURANCE AUDIT DEPARTMENT.

Chairman.

1059. (To Mr. *Brock.*) With reference to paragraph 25 of this Report which is before the Committee, have you anything to add with regard to the suppression of Auditors' Reports?—In any case of that kind we should bring pressure to bear on the Society to see that the Report was communicated to the members.

1060. Is any penalty attached to it?—No penalty attaches to it at present, but under an Amending Act which was passed in February, and which will come into operation on the 1st July, the Commissioners have power by Regulation to extend the penalty provisions of the Friendly Societies Acts to the administration of Societies under the National Insurance Acts, and therefore it can then be made an offence for an official of a Society or a Committee of Management to fail to

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote III.—National Health Insurance Commission (England)—*continued.*

Chairman—continued.

comply with any of the requirements or regulations, so that the Regulations and the instructions of the Commissioners will at last have sanction behind them, which they have not hitherto enjoyed.

Sir *Charles Henry.*

1061. What is the penalty?—Ordinarily, it is a fine not exceeding £5. It is brought before a Court of Summary Jurisdiction.

1062. Have the Commission any power of suspending an approved Society?—We have always had power to withdraw approval from a Society as a whole, but we have not, until this recent Act, had power to withdraw approval from an individual branch in the case of an affiliated order.

1063. Now you have power to do that?—Yes.

Chairman.

1064. The special cases referred to on page 5 of this Report are two cases to which reference is made in the Report of the Comptroller and Auditor-General?—That is so.

1065. Will those two cases come under the same rule, that you can inflict fines upon them?—They are really hardly cases which could be dealt with on those lines. They are both cases in which Societies had made a very unsatisfactory start, and in both cases, under pressure from the Commission, radical improvements have been made, and they have pulled themselves round, but it will not be possible to clear up quite satisfactorily the accounts for the early period.

1066. I see that the Report of the Comptroller and Auditor-General says: "The final credit of State grant to these Societies is still under the consideration of the Insurance Commissioners." Does that mean that you are only satisfied to pay them a certain proportion of what they claim?—It means that when we are satisfied that the Society has actually put itself straight we should be disposed to recommend that the State grant provisionally credited on the expenditure for the initial years should stand. It would not be fair, on a strictly limited test audit, to say that the percentage of errors that test disclosed should be applied to the whole expenditure of the Society.

Mr. *Haslam.*

1067. Touching the Societies generally throughout the country, is the financial position or solvency of these Societies improving year by year?—Certainly, so far as men are concerned, the sickness experience has always been within the actuarial estimate, and has been steadily improving. As regards women, the sickness experience in the earlier years of the Act was in excess of the actuarial estimate. It is now inside it. That improvement is probably due to improved administration, but it is also due, no doubt to some extent to improved employment, better wages, and, with better wages, better food, and consequently an increased power of resistance to disease.

1068. I can quite imagine that the increased employment has helped Societies very considerably?—It has very considerably; and, more than that, if a man is earning good wages, he has less inducement to seek sickness benefits, or if he cannot help applying for them he shortens his convalescence as much as he can.

Mr. *Leif Jones.*

1069. With regard to paragraph 12 of the Report, "Fraud and Failure to Account." I thought this disclosed rather a serious state of things, and I wondered if you had anything to add to the paragraph, or to explain it?—I think the figures, as they stand, suggest that there has been a progressive deterioration. That is, in fact, not the case. Speaking for the English accounts only, out of the total amount in that paragraph reported in 1917 only £4 000 represented gross deficiencies in England and of that amount £1,700 related to periods prior to 1916, so that what had really happened was that the audit had been sweeping up a lot of old cases, and deficiencies came to light in that year in accounts which really did not belong to it, but belonged to an earlier

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote III.—National Health Insurance Commission—*continued.*

Mr. *Leif Jones*—continued.

earlier period. The returns for the three months of this year show a most extraordinary change. During the last three months only fifteen cases have been reported, and the total deficiency amounted to £243, and on further analysis I find that only in six of these cases was there actual loss by malversation, the total loss being £70. Taking the last four months of last year, the total deficiencies only amounted to £778, so that as the greater part of that large sum, at any rate, so far as England is concerned, really relates to deficiencies which were reported and arose either before or during 1916 or in the early part of 1917, I think we are justified in claiming that the position has very materially improved.

1070. I do not know that I quite follow you. It was 1916 which covered a period of about eighteen months, but in 1917 there were no arrears, were there? You are actually dealing with the period of 1917, which makes a comparison of 1917 with 1916 even worse?—Yes, but the audit, of course, in 1917, the period covered by the Chief Auditor's report, dealt with accounts ranging over a considerable period.

1071. It is part of the figures put under 1917 here that you were speaking of just now?—Yes, out of that £4,000 reported in England £1,700 actually went back prior to 1916.

1072. You do not expect to have to repeat this paragraph in coming Reports?—I hope the Chief Auditor will not have to repeat it. But with something like £7,500,000 going out every year to meet the expenses of cash benefits and administration, and with the large number of officials handling that cash, which is estimated at at least 30,000, there must always be a certain number of cases of malversation. It is not that the man always starts with any fraudulent intention; probably more often than not it begins with muddle, and, of course, muddle very often slides into fraud.

(*Mr. Brock withdrew.*)

ON VOTE IV.

NATIONAL HEALTH INSURANCE COMMISSION (WALES).

Chairman.

1073. (To Sir *Sydney Olivier.*) Have you got that certificate yet to which reference is made in the Report of the Comptroller and Auditor-General on page 336?—No, we have not got it yet.

1074. Is there any reason why not; are they refusing to give it?—No, it is simply a case of procrastination, I think.

Sir *Hildred Carlile.*] One feels rather inclined to ask that further pressure might be brought to bear upon them to produce that certificate, as the delay seems to be considerable.

Chairman.

1075. You are exercising pressure, Sir Sydney?—Yes, friendly pressure. (Mr. *Boggis-Rolfe.*) The certificate was issued, sir, on the 26th instant.

ON VOTE V.

NATIONAL HEALTH INSURANCE COMMISSION (SCOTLAND).

No questions.

ON VOTE VI.

NATIONAL HEALTH INSURANCE COMMISSION (SCOTLAND).

No questions.

ON VOTE VII.

MINISTRY OF LABOUR.

Sir DAVID J. SHACKLETON, K.C.B., called in; and Examined.

Chairman.

1076. (To Mr. *Wilkins.*) Referring to paragraph 2 of the Report of the Comptroller and Auditor-General, on page 345, the Treasury had no difficulty in agreeing to that relaxation, I presume?—The Treasury were gradually driven to agree to the relaxation with reluctance, but they felt it was unavoidable.

1077. You did not think that the claim for relaxation was sufficiently strong?—We would have preferred not to have agreed, but we were convinced in the long run.

Mr. *Leif Jones.*

1078. What is the relaxation you granted; what was the extent of it?—Perhaps Sir David could answer that.

1079. Is it a universal relaxation?—(Sir *David Shackleton.*) No, I think the answer is a very simple one; it is a relaxation not in cases where individuals are out of work; it is a relaxation in cases where a whole mill or a whole shop is stopped and everybody knows that they are stopped. In that case once a week is required in certain cases and in other cases a certificate from the employer and the workmen jointly that the mill is stopped. That is the relaxation.

1080. Those cases were fully gone into by a Committee whose recommendations were adopted?—Yes.

1081. And you have felt it necessary to set aside the recommendations of the Committee made in the full light of the facts you are speaking of?—I think there has been another Inquiry since the one you are referring to, Mr. Leif Jones, and we are practically carrying out their Report as to the necessity for carrying out this relaxation.

1082. I have heard nothing of this subsequent Inquiry. (Mr. *Wilkins.*) I think it was scarcely so authoritative and exhaustive an Inquiry as the one to which the right honourable gentleman refers.

1083. I should be interested to hear what Inquiry

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote III.—National Health Insurance Commission—*continued.*

Mr. *Leif Jones*—continued.

was held, because the Committee on which I sat made a very exhaustive inquiry into all these things and reached a unanimous decision with regard to them. I understand now that you have had an Inquiry since?—(Sir *David Shackleton.*) There has been an Inquiry held in which evidence was taken from the representatives of these particular groups of industries, and their Report was to the effect that this could safely be done with the guarantees which we demand from them.

1084. Who were the Inquirers?—I think it was a Departmental Inquiry.

1085. May we know the members?—I could not remember the names (Mr. *Wilkins.*) I think Sir David was using the word "inquiry" in rather a different sense to that in which the right honourable gentleman is using it.

1086. I am very much puzzled because it was a Departmental Committee which was set up with a few others added, and it was a Committee set up expressly to inquire into this matter. That Committee which sat a very long time and took a great deal of evidence from people from the mills which are concerned in this matter reached a unanimous verdict and Report, and we were told that that Report was going to be acted upon. I think we ought to know why a Report so sanctioned, resting on such evidence, has been set aside and on whose authority?—(Sir *David Shackleton.*) I do not think a Report of that character has been set aside. The relaxations so far as I remember are strictly within that Report, that is to say, in these particular instances individual signatures from every workman out of employment when a shop is stopped are not required. (Mr. *Wilkins.*) I do not know whether it would suit the convenience of the Committee if Sir David were to submit a memorandum on the subject. (Sir *David Shackleton.*) I am quite willing to do that.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote VII.—Ministry of Labour—*continued.*

Mr. *Leif Jones*—continued.

1087. I should be very glad if Sir David would do that just to explain what has happened to our report?—Quite so. (Mr. *Wilkins.*) So far as the Treasury are concerned I wish to make it clear that we only gave in after protracted correspondence and with considerable reluctance after hearing the reasons which Sir David will no doubt mention in his memorandum.

1088. I would just remind Sir David that the Committee was really appointed because there had been such a protracted correspondence and difference of opinion between the Departments in order to help to reach general agreement?—(Sir *David Shackleton.*) I think you will find that the relaxation does not go beyond the Committee's recommendations. (Mr. *Wilkins.*) To avoid any possible misunderstanding, is the Right Honourable Member asking for a memorandum on these three points, that is to say, the necessity for daily signatures, the removal of books from licensed premises, and the extension of the certificate system, all three, or on one particular point?

1089. I should like a memorandum really on the whole thing?—(Sir *David Shackleton.*) As regards the removal of books there is a very simple explanation, and the reason for that is this. Quite a number of these cases, thousands of them I should say, have been accustomed to have their books at licensed premises, and our policy is to discourage that in every way we can.

1090. That I think was the view of the Committee which sat, too?—But in certain cases, especially in towns where the branches of the Unions are so small that they have no separate office, their books are kept on licensed premises and there is no other place to go, and we are not able to persuade all of them to go to the nearest Exchange which may be one or two miles away, and in those cases we had to give some relaxation in order to get control of the expenditure.

Chairman.

1091. You will put in that memorandum?—Certainly.

1092. With reference to paragraph 4, Sir David, it states that in two instances the Treasury had agreed to the proposals of the Ministry for settlement on the basis of a refund of one-third of the amounts advanced on the claims under this section; how is that arrived at?—In my view that one-third is an unfair return by the people concerned, but that is the best we can get from the Treasury. I think members of the Committee will remember what the situation was in the early days of the war. We had whole towns stopped. I had to deal with those not in my present position, but as acting in behalf of War Emergency Committees, and at the time I had to go down to Lancashire and see how I could help these people. We had whole towns stopped—cut down quickly. In one week 85 per cent. of the whole of the mills in certain districts were stopped, including whole towns. It was quite impossible during those weeks to get the signatures, the signing on as it is called, of all these operatives, and there were in some cases bigger percentages than were reasonable under ordinary conditions. The difficulty that these people had to contend with was that the workpeople said, "Why do you want our signatures? You know the town has stopped, we are not going down to waste our time to sign for 2s. or 3s. of State money when we are getting 10s. or 15s. from our Society." The difficulty was to convince people that it was necessary to sign on for the thing when everybody in the town knew that they were out of work and had no chance of work. It has been with considerable difficulty that we have been able to persuade some of the Unions concerned that this is a fair thing. I am afraid we shall have some difficulty in getting back the proportion which has been deducted. I feel that this money is just a Treasury receipt which these people are entitled to. The money has been paid and honestly paid. Owing to the peculiar circumstances of the situation at the time the machinery which the Society had to meet an ordinary stoppage was not able to deal with it. When you have a whole town of 9,000 members suddenly thrown on your hands it is impossible to improvise machinery to deal with it straight away.

1093. Do they have to sign on for their strike pay?—They have to sign on so many times a week and you could not persuade people to do it.

1094. Mr. Wilkins, do you know whether this one-third was thought proper?—(Mr. *Wilkins.*) We were even more reluctant in this case than in the other to make any concession. The Treasury expressed their opinion that the delay which occurred in examining the claims was very regrettable, that it showed a laxity in the administration of public moneys which was open to very serious objection, and that if the matter came up before the Public Accounts Committee they were bound to submit these views. They were rather impressed by the fact that the Treasurer of one of the branches of these Associations was actually imprisoned for embezzlement a short time after these payments were made. I think it only right to mention that; but in the long run, having regard to the very exceptional circumstances under which the grants were made at the beginning of the war they agreed reluctantly as a compromise to the payment of this one-third after another period of protracted correspondence, and semi-official interviews between the honourable member for the Bewdley Division and Sir David.

Sir *Charles Henry.*

1095. With regard to sub-head E, on page 341, "Advances to workmen," has the bulk of that excess payment been refunded?—(Sir *David Shackleton.*) I think generally speaking the amount of loss on the refund is less than one per cent.

NATIONAL INSURANCE ACTS, 1911-1914.
(UNEMPLOYMENT INSURANCE).

Chairman.

1096. (To Sir *David Shackleton.*) Referring to the first paragraph of the Report of the Comptroller and Auditor-General, which is on page 4 of the White Paper, would you tell me what the effect of the change by the concentration at Kew has been?—It has been a considerable economy from every point of view, quickness of payment and check. It is not quite in full working yet.

1097. The concentration on the whole has been good in result?—Yes, we are quite satisfied so far.

(*Sir David Shackleton withdrew.*)

ON VOTE VIII.

NATIONAL INSURANCE AUDIT DEPARTMENT.

Mr. D. H. BOGGIS-ROLFE called in; and Examined.

Mr. *Leif Jones.*

1098. (To Mr. *Boggis-Rolfe.*) I want to ask you how you are off for staff and as to your being able to get on with your work?—The staff reductions are very fully described in the third and fourth Annual Reports, at the beginning of the third Report in particular. We have reduced our staff from 739 to 334, including 85 women. That is shown in paragraph 2.

Mr. *Leif Jones*—continued.

1099. What effect has that had on your work?—We have considerably reduced the scope of our audit. The temporary scheme of audit is described in paragraph 3.

1100. On that temporary scheme are you up to date?—We are fairly up to date. I think I may say we are in a very similar position to that we were in last year, except that we have swept up a very appreciable number of

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote VIII.—National Insurance Audit Department—*continued.*

Mr. *Leif Jones*—continued.

of the earlier outstanding periods, the accounts of which we could not previously obtain. I could give the Committee figures on that subject now or later. We are a little bit behind hand on what I may describe as the current audit work, but, on the whole, I think the position may be described as being much the same as at this time last year.

1101. If your staff were reduced now, what would happen?—There would be a breakdown, I think.

Chairman.

1102. Are you likely to be affected much by the new Act?—We should be very considerably affected if they swept us any further, because the staff was recruited in 1912 of practically all young men, and, as the Committee will see, we have reduced our numbers by about 50 per cent. as it is.

Sir *Charles Henry.*

1103. Of that 334, how many are within the present military age?—I could not give the exact figures off-hand, but a very large proportion of necessity. It is very highly technical work, and they are mostly chartered accountants and incorporated accountants. We have done our very best to bring in women, but we cannot obtain either trained men or trained women. We must have people with a knowledge, not only of accounting and auditing but some knowledge of the

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote VIII.—National Insurance Audit Department—*continued.*

Sir *Charles Henry*—continued.

National Insurance Acts, which the Committee will appreciate are extraordinarily complicated.

Chairman.

1104. The whole 334 are not permanent staff?—No; we have 43 auditors, 5 acting auditors, 95 assistant auditors, 60 audit clerks, and 7 second division clerks. That is the technical auditing staff, and the Committee will see the numbers we have reduced the staff by when I tell them that of assistant auditors we had a staff of 243 and we have only retained 95. We have lent to other departments 78, and there are 70 at the front. I have not included those whom we have lost by casualties, and they are fairly numerous, as will be seen by paragraph 2. We have had 63 casualties.

Mr. *Leif Jones.*

1105. Have you reduced the amount you have on salaries in the Estimates for the current year?—No, because those with the forces we are paying, and those lent to other departments we are paying their normal salaries, and any small allowances in the few cases where allowances are paid are made by the borrowing department. I should mention that of the audit clerks we have retained 60 and 68 are at the front, so I think they have done their share.

(*Mr. Boggis-Rolfe withdrew.*)

ROAD IMPROVEMENT FUND.

No Questions.

REVENUE DEPARTMENTS.

ON VOTE 3.

POST OFFICE.

Sir CHARLES A. KING, C.B., called in; and Examined.

Chairman.

1106. (To Sir *Sydney Olivier.*) With reference to paragraph 1 of the Report of the Comptroller and Auditor-General on page 380 as to those unvouched charges, £49,000, you had no difficulty in admitting them against the Vote as was done last year?—No, sir, we thought it perfectly reasonable.

1107. (To Sir *Charles King.*) Would you deal now, Sir Charles, with the question of these vouchers lost in transit, which are referred to in paragraph 2 of the Comptroller and Auditor-General's Report? Have you anything more to say about them? Were there very many of them?—Yes, they would number 1,000; I saw a similar parcel for the next month—about a cubic foot, I suppose. At that time we were making a great clearance of all paper in the department, acting under a suggestion from the Stationery Office, in order that the paper might be pulped, and I am afraid that this bundle went with the real waste.

1108. You have done all you can to substantiate the amounts?—The accounts have been examined, and all those totals were reconstructed in Dublin from their own records.

1109. As to paragraph 4, what is this outstanding case which has been referred to the Treasury, Mr. Wilkins?—(Mr. *Wilkins.*) It is now settled, it is quite a small case, and the Treasury have now given their authority.

1110. You are quite satisfied, Sir Charles?—(Sir *Charles King.*) Yes.

Sir *Hildred Carlile.*

1111. Referring to paragraph 7 of the Report, have those questions now been arranged about the manufactures?—Not completely; we have answered some of them, but the staff of the Stores Department has been very much depleted, and the work has been enormously increased. We are supplying the Army and the Navy with stores to the value of millions a year; there is thus a depleted staff and really more work than ordinarily, but we are doing the best we can with the queries. We have answered half of them, and there are four or five still unanswered which are under consideration now.

Chairman.

1112. As to paragraph 8: "Stock taking of stores." What is the Treasury answer to that, Mr. Wilkins?—(Sir *Sydney Olivier.*) The Treasury authority has now been received. (Mr. *Wilkins.*) It has been investigated and found quite satisfactory.

1113. The Report has been received, Sir Sydney?—(Sir *Sydney Olivier.*) Yes.

1114. I suppose the fact that the discrepancies in 1916-17 show a larger proportion than last year still awaiting investigation is due to shortage of staff?—(Sir *Charles King.*) Shortage and inexperience of staff, both. There are new people, men and women, who do not understand what a bit of an instrument is; they pass it in as one kind of thing and it is really something else.

1115. They

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 3.—Post Office—*continued.*

Chairman—continued.

1115. They have also increased in numbers probably, too?—Yes, the quantity dealt with is much larger, and we have got a staff which really cannot deal with the work.

1116. Turning to the Vote itself on page 363, I observe that there is a very large over-expenditure on all the votes?—All war; the statement of our war expenditure is on page 379.

1117. Turning to page 367: "Burglary at Buckingham Gate Sub-Office." That is a large amount, Sir Charles?—It was a burglary, and it is a big office.

1118. Is that an ordinary amount of cash for them to have?—It includes other things as well; it is more than cash.

1119. It is cash of different sorts, but that is about an ordinary amount they should have overnight?—Yes.

1120. Was the safe a good one, or was there anything defective about it?—I do not recall any suggestion that the safe was not good. I think if there had been any fault in the safe I should have had it noted. It is not on my notes that there was anything wrong with it.

Colonel Sir *Herbert Jessel.*

1121. What does "T.S.O." mean?—Town Sub-Office—a sub-office in the city distinguishing it from a country sub-office. In further answer to the Chairman's question, the amount of cash in hand at the week-end was only £247, postage stamps £160 odd, National Health Insurance £600 odd, Unemployment Insurance £123, Savings Banks Coupons £7, and postal orders £755. That is about £1,900.

1122. And about the ordinary quantity?—Quite, for a big office like the Buckingham Gate office—quite moderate.

1123. And there is no suggestion of any collusion from inside?—None.

1124. "Loss of two official remittance letters at Cork." There is £317 loss there?—That was at a week-end. The remittances were made up on Saturday, the 8th May, for dispatch on Monday, the 10th, by the early morning postman. From 8.30 p.m. on the 8th the letters were in the charge of the sorting clerk, who kept them on a shelf in the registered letter enclosure instead of putting them under lock and key. When the whole bulk of the remittances were checked at 6 a.m. on Sunday before handing them over to the acting overseer these two remittances were missing. There was some failure in the search at the moment; they waited for the arrival of a senior officer at 7 o'clock in the evening, and it was not possible to check the other remittances—I daresay there would be 150 being sent off at the same time—to see whether there had been any mis-sorting of those two particular parcels; that is to say, whether they had been placed wrongly in other parcels.

Mr. *Baldwin.*

1125. What is the form of remittance?—Generally in Ireland it would be bank notes, 10s. currency notes and silver.

1126. Portable cash?—Yes, for the payment of the Army allowances on the Monday and Tuesday.

Chairman.

1127. These were remittances from Cork to the sub-offices round Cork to enable them to pay the Army allowances on the Monday and Tuesday.

1128. Probably it was theft?—I think there is no doubt about it.

1129. Was anybody prosecuted or discharged?—There was no evidence which could be discovered throwing suspicion on any individual officer, and nothing has transpired to indicate that the remittances went to any other office.

1130. What about the man who put it in the wrong place?—He was called upon to pay £5 for his failure, and the acting overseer, who did not take proper steps when the theft was reported to him, was fined £3. The rest was written off.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 3.—Post Office—*continued.*

Chairman—continued.

1131. What was the fault of the acting overseer?—He failed to take proper steps when he was informed that the remittances were lost.

1132. He waited till 7 p.m.?—He waited for someone else, and in the meantime it was too late to open all the other remittances to see whether it was a simple blunder in the packing.

1133. They knew that these two packages had been placed in a certain place? Are you satisfied yourself that the thief is not in the office still?—No, I am not; but our detectives failed to locate the thief or thieves.

1134. The detectives were not put on early enough, apparently?—Oh, well, there would not be a detective at Cork; the loss would be reported naturally to Dublin on the Sunday, and a detective would probably not be sent down to Cork—it would not be possible—till Monday morning.

Mr. *Haslam.*

1135. Is it your rule to register any moneys which are sent by post?—Yes, all these remittances are registered; they all become registered letters directly they are made up.

Sir *Charles Henry.*

1136. With regard to sub-head H 3. "Incidental expenses, £28,564." on page 367, what do they consist of?—I think in order of importance it would be Maintenance Grants to the refreshment rooms which are maintained at all the big offices, the groceries supplied to the Central Telegraph Office, so that the telegraphists may not leave the instruments, grants to boy messengers' institutions, the compulsory education of boy messengers, donations to hospitals, compensation for injury to persons and property, and telegrams on official business. There are a number of small items, but the grant to the refreshment rooms, I think, is the big item in the matter.

Chairman.

1137. Replying to sub head H on page 368, "Payment for compensation for loss and damage to parcels and registered letters, £16,628"; that is not appreciably larger than usual, is it?—It is going up somewhat; it is £2,000 odd more than last year. The number of registered letters has increased enormously, the number of parcels has increased, and the loss and damage to parcels, damage especially, has increased with the inefficient handling. The business is much larger—the increase in registered letters is enormous.

1138. And the increase in the loss is commensurate with the increase of business, is it?—I think it is about. It shot up last year, and it is too high, but the increase as between the two years is £2,600.

1139. Referring to sub-head O, on page 371, the losses by default and accident in connection with Post Office Savings Banks are extremely small?—That is so; it is when the cases mature that they come here.

1140. Turning now to the White Paper, the report of the Controller and Auditor-General is on page 23, in the third paragraph of which this statement occurs: The actuarial percentages used for the first time in arriving at the pension liability involved an increased charge of £18,234 for the year under Telegraphs and an increased charge of £29,703 under Telephones, mainly owing, in the latter case, to the lower percentage (11, as compared with the provisional rate of 15) applied to the engineers." Is that provisional rate an arbitrary rate fixed every year?—No. It was a rate calculated for male employees generally. It was calculated that for men it should be 15 per cent. and for women 12½, but the consulting actuary put the men into five classes, and he put the engineers into a separate class because they enter late and they do not stay with us always to get a pension, so when you place the men in different classes the administrative class went up from 15 to 21, and the engineers, who come to us late and do not stay with us for their whole time, went down from 15 to 11.

1141. So that the provisional rate of 15 applied to the

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 3—Post Office—*continued.*

Chairman—continued.

the whole staff and the 11 applied to the engineers?—It applied to the whole male staff.

1142. On paragraph 5 of the Controller's Report I understand you have something to say?—Yes, I have something to say, and if desired I will hand copies of my notes to the Committee. This question came up in 1916, two years ago, in Questions 1274 to 1276 of the proceedings of the Committee, and I summarised what I then said on behalf of the Post Office. I suggested that the Actuary's calculations of the allowance for Pension Liability, based on a 3 per cent. rate of interest, should be recast on a rate of interest approximately equal to the rate that the Telephone undertaking is paying for the money it borrows. In 1916-17 Telephones were paying 5 per cent. for its long-dated loans and 5⅜ per cent. for its shorter loans from the Exchequer; the anomaly of the Telephones lending its own money at an obsolete rate of interest (3 per cent.) and borrowing money at a current rate (5 per cent. or over) is more pronounced now than it was two years ago. And it is this anomaly I am to ask the Committee to consider and amend. The Treasury reply to my previous submission was that regard must be had to the past as well as to the present and to the future, and that if the imaginary Pension Fund money has been invested in Consols or any other security, the past accumulations would be seriously depreciated. The second part of the Treasury reply is that no alteration had been made by insurance companies in their charges for annuity business. The matter then dropped. On behalf of the Post Office, I am now to offer the following observations for the consideration of the Committee, with a view to a settlement of the case. (1) The first objection of the Treasury is that *if* the money had been invested in Consols, etc., there would be a serious depreciation to wipe off. This is no doubt true on the double hypothesis that the money was invested in Consols and had to be sold at a loss; but as a matter of fact Telephone Revenue is paid week by week into the Exchequer and *pro tanto* reduces the borrowing of money by the Exchequer at the current rate. Moreover, with a growing service like the Telephones, there can for many years be no question of selling its hypothetical Pension Fund investments; with the growth of Telephones the inflow to the fund must exceed the outflow. (2) The second objection of the Treasury reply (that the annuity rates have not altered) no longer applies, as the Government annuity tables now provide tables of purchase rates for immediate annuities when the average price of £100 of Consols is between £55 10s. and £57 2s. 6d., and also when the price is below £55 10s. I may add that in computing the capital cost of the existing schemes for pensions for wounds and casualties of officers and men of the Army and Navy and of their families and dependants, Sir Alfred Watson, the Government Actuary, adopted on his own a basis of 4 per cent. (free of income tax). The rate is stated in the Parliamentary Paper, and I inquired of Sir Alfred why he took 4 per cent. and not any other rate, and he said he did it because he thought it was a suitable rate. (3) Even if the Telephone Pension money had been invested in Consols when they stood much higher than they do now, it is an open question whether the Telephone subscriber of to-day could properly be called upon to pay higher rates of subscription, or could properly be refused a reduction of those rates on the ground that in past years the money had been invested in Consols and that he (the subscriber of to-day) must make good the deficiency. For it must be remembered that the object of the Telephone Commercial Accounts is to show the financial result of the undertaking in the year under review. We are under a promise to review Telephone rates if the surplus of the year is more than moderate, that is to review it in the direction of decreasing the rates, so I do suggest we must take

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.
On Vote 3.—Post Office—*continued.*

Chairman—continued.

each year by itself. (4) The Department, basing its calculations on the consulting actuary's statistics, has worked out the percentages of salaries and wages proper to the Pension Fund at each decimal point from 3 per cent. (the rate given to the actuary) to 5 per cent. It is therefore in a position to calculate the pension money of the Telephone undertaking required in any year at the same rate of interest as the Telephone undertaking is charged for its borrowings. (5) The Department contends that *in its accounts on commercial lines* it should follow commercial practice and use its own Telephone money on its own Telephone business, or if for reasons of convenience it both lends and borrows, it should do so at about the same rate; it certainly ought not to be forced to borrow at a current (high) rate and invest its money at an obsolete (low) rate. It proposes therefore (and this is the definite proposal I am to put before the Committee) that the Pension Liability charge should be calculated on the basis of a rate of interest fixed year by year at the lower of the two rates charged either by the National Debt Commissioners or by the Treasury for capital advances in that year, rounded off, if not expressed in quarters, to the next quarter per cent. below. (6) That a revision on these lines is proper seems to be fully confirmed by the consulting actuary himself, who wrote to me as follows:—"The valuation of Post Office employees for pension liability has been made at 3 per cent. interest, that rate having been fixed before there was any thought of war, and it is now of course altogether out of date." (7) An additional reason for taking the current rate of interest for these Pension Fund calculations is that in present circumstances it is not practicable to forecast what the rates of interest will be in future; and if the calculation is reviewed year by year you get *the true average rate*, and this is roughly what the 3 per cent. represented before the war. You cannot get a better average than to take every year. That is my submission, Sir.

1143. Mr. Wilkins, what have you got to say about that?—(Mr. *Wilkins.*) I can only begin by expressing my great surprise that any subordinate Department of the Treasury should have taken the line the Post Office has taken to-day. This matter has been the subject of considerable correspondence, and the Treasury wrote to the Post Office on the 8th March a letter which I understood would settle the question for the moment. I heard not a single word on this subject until I came here to-day, and then without warning I find a memorandum submitted to the Committee of which the Post Office have not had the courtesy to furnish me with a copy. It is quite impossible for me now to go into those detailed arguments. I shall be happy to submit a copy of the correspondence which has passed to the Committee if the Post Office concur. I observed before coming down here that a suggestion made by the Treasury for the insertion of a note on the Commercial Accounts had not been accepted in the form in which it was made. I fail altogether to understand what object the Post Office had in omitting to send me this memorandum.

1144. I may say that it arises on the Report of the Comptroller and Auditor-General; I noticed it on looking through?—It is obviously a very proper subject for discussion, but why the Post Office should submit this memorandum without previous consultation with the Treasury I do not know. (Sir *Charles King.*) May I make this one point—that we have written several long letters to the Treasury on this subject, and there is nothing in this memorandum which we have not said to the Treasury. (Mr. *Wilkins.*) I could have saved the time of the Committee very considerably by putting in a counter-memorandum if I had had any sort of notion that this was coming up.

1145. We will adjourn this question of the Treasury reply.

Thursday, 18th April 1918.

MEMBERS PRESENT:

Mr. Baldwin.
Mr. Reginald Blair.
Sir Hildred Carlile.
Sir Henry Craik.
Mr. Haslam.
Colonel Sir Herbert Jessel.
Mr. Leif Jones.
Sir Robert Williams.
Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-1917.

Sir SYDNEY OLIVIER, K.C.M.G., C.B., and Mr. ROLAND WILKINS, C.B., called; and Examined.

The Irish Accounts were taken as read.

Chairman.

1146. (To Mr. *Wilkins.*) I understand, Mr. Wilkins, you desire to hand in a paper first of all?—I beg to hand in a copy of the correspondence between the Post Office and the Treasury with regard to the Pension Liability of the Telephone System. I always make a point of trying as far as possible to compose Departmental differences out of Court, and before the Treasury letter of the 2nd February was written I rang up Mr. Murray, the Secretary to the Post Office, and arranged with him that the matter should be settled by the insertion of a note as proposed in that letter. I still fail to understand why the Post Office, without communication to the Treasury, altered the form of that note, and why Sir Charles King broke the arrangement at which I had arrived with his superior officer. The correspondence will explain itself, but I have one or two remarks to add. In the first place, I think it is desirable that the Committee—and especially those members of the Committee who are also members of the Sub-Committee on the Form of Public Accounts—should realise clearly that the Commercial Accounts rest not exclusively on a basis of fact, but on a basis of fact and hypothesis combined. They involve questions of fact and also questions of opinion. I do not complain of this. I think that Commercial Accounts are of great value; and in the business world Commercial Accounts involve questions of opinion and judgment such as the probable life of the plant and the proper allowance to be made for depreciation. A considerable measure of hypothesis is inevitable; and when I represented the Treasury on the Committee which devised the form of the Accounts, I satisfied myself that the hypotheses adopted were, on the whole, the best that could be taken. But speaking quite frankly I was surprised—and I think the Committee would be surprised if they had time to investigate the matter thoroughly—at the extent to which hypothesis had to be carried, and at the magnitude of the difference between these accounts and the ordinary Cash Accounts which deal entirely with facts, and which are capable of precise and exact audit; and the first point which I wish to emphasise is the desirability of preserving cash accounts throughout the Public Service alongside any Commercial Accounts which are established.

1147. I do not want to interrupt you, Mr. Wilkins, but does this apply to the particular question as to the amount or rate of pensions?—Directly, because that is one of the hypotheses.

Mr. *Leif Jones.*

1148. That is a pure hypothesis?—Yes. This will not take long. In further illustration of this point I would mention first that, as mentioned in the footnotes, the expenditure on many Telephone Services is not separate expenditure, and has to be calculated by the apportionment of Common Service expenditure; and, secondly, that unfortunately the accounts were not set up as soon as the telephone system was created, so that some of the assumptions as regards the past are constructive. Again, the periods over which loans for telephone expenditure are repaid are not identical with the periods representing the life of the plant; and there are many other complications which I could

Mr. *Leif Jones*—continued.

not explain fully unless the Committee could devote half a dozen afternoons to this subject. If they had before them a full memorandum as to the way in which the provision for writing-off is calculated they would find that hypothetical capital liabilities have been set up, and that hypothetical debits for amortising them have been inserted, that is to say there is hypothesis on hypothesis. My second point is as follows. The Pensions Liability does not represent actual payments. It is based on the hypothesis that a certain sum is set aside each year and invested in long term securities which are realised when necessary to provide the cash required to pay pensions. Now, no one can seriously propose to ignore the fact that this annual sum may in future be presumed to earn higher interest than in pre-war days; but, on the other hand, the actual future rate is uncertain, and it is equally impossible to ignore the fact that the hypothetical securities in which this sum must be taken to have been invested in the past must be presumed to have depreciated considerably in value. I do not understand why the Post Office propose to leave this out of account. The Committee would probably like me to make some detailed observations on Sir Charles King's Memorandum.

Chairman.

1149. Not at all; the Committee have not got it before them. We rather understood that you were going to put in a paper in reply to Sir Charles King's Memorandum?—I will, if the Committee prefer it, put in an annotated copy of Sir Charles King's Memorandum with our observations shown as notes, or I will state them verbally now.

Mr. *Leif Jones.*

1150. I think the point is of considerable importance, and, in my opinion, the best plan would be, if you would allow it, that Mr. Wilkins should put in his comments in detail on Sir Charles King's Memorandum?—I have here a copy of Sir Charles' Memorandum with annotations on each paragraph, and I would hand that in.

1151. That is what I should personally like to have, and then we could discuss it at some future date?—I would like to express my regret that at a crisis like this the Committee should be troubled with a complicated question which it is very difficult to deal with by way of question and answer, and all I can say is that it is not my fault.

Chairman.

1152. The matter came up on the report of the Comptroller and Auditor-General?—Yes, but I had arrived at a complete agreement with Mr. Murray.

1153. You will put in your paper?—Yes.

(*Mr. Wilkins withdrew.*)

CLASS I.

ON VOTE 13.

PETERHEAD HARBOUR.

No Question.

NAVY APPROPRIATION ACCOUNT, 1916-17.

Mr. G. L. BARSTOW, C.B., and Sir ALFRED EYLES, K.C.B., called; and Examined.

Chairman.

1154. We will take the Treasury Minute first of all. There is nothing in the Treasury minute particularly is there, Sir Alfred?—(Sir *Alfred Eyles.*) Yes, the minute dated 18th January of this year deals with the paragraphs of the report of this Committee relating to the Navy Account.

1155. I have got a different one. Paragraph 21 deals with the question I was going to ask you again this year: Have you anything more to say about it?—If the Committee so desire I would read, and then put in, the Admiralty reply to that Treasury Minute.

1156. Ought we not to wait until we come to the particular paragraph in the Comptroller and Auditor-General's Report upon that?—I think generally speaking the Treasury Minute refers specifically to only one paragraph of the Comptroller and Auditor-General's Report. Perhaps the Committee would like to have the Admiralty reply to the Treasury Minute as in former years, and then deal specifically with any points as they arise later on, but that is a matter for the Committee to determine.

1157. If you would rather make the reply to the Treasury Minute now, we will not go over the same ground again?—I want to put in the Admiralty reply to the Minute as in former years, but whether the Committee would like it read now is another matter.

1158. Is it long?—Two and a half pages.

1159. You had better read it, I think?—It is dated 9th March of this year:—"Sir,—My Lords Commissioners of the Admiralty have had under consideration your letter of the 18th January last, No. 334, containing the observations of the Lords Commissioners of His Majesty's Treasury on the Report of the Committee of Public Accounts with regard to the Navy Accounts for 1915-16. It will be convenient in reply to deal seriatim with the paragraphs of the Public Accounts Committee's Report which are referred to in your letter. *Paragraph 21.*—My Lords much regret that the work of the Comptroller and Auditor-General should have been hampered by the difficulty of obtaining Admiralty Papers relating to expenditure. They are desirous of affording him and his officers every possible assistance, and the fact that under the abnormal conditions of war it has not been possible to ensure the same regularity and completeness in regard to the supply of papers and vouchers as in peace time has been a cause of much anxiety. Every effort is being made to meet the requirements of the Audit Department, and in this connection I am to invite attention to the accompanying copy of a letter to the Comptroller and Auditor-General dated the 12th January last." (That letter is a detailed reply to the Comptroller and Auditor-General, and, if agreeable to the Committee, I will put it in.—*See* Appendix No. 11):—"*Paragraph 24.*—My Lords note that the Lords Commissioners of His Majesty's Treasury share the satisfaction of the Committee at the adoption by the Admiralty of a form of net cost contract which limits or fixes at a definite sum the profit of contractors. I am to state that contracts on the basis of net cost, plus percentage for which the Director of Contracts is responsible are, with trifling exceptions, confined to cases in which no data exist for forming any reliable estimate of cost or risk in manufacture. Such cases comprise:—(a) Repairs to ships and guns. Erection of gun mountings away from works, and of certain wireless telegraph installations on shore. (b) Construction of rigid airships. (c) Experimental work. As regards 'Works' contracts, it has been found difficult, owing to the fluctuation of prices for materials and the upward tendency of rates of wages, to obtain lump-sum offers from contractors. Consequently, resort has had to be made to prime cost, plus percentage, but this is competitive in most cases. In a few contracts, where it has been possible to agree to an estimated cost beforehand, the percentage of profit has been fixed on this or on the actual cost, whichever is lower. *Paragraph 26.*—My Lords are in entire accord with the Committee and the Lords Commissioners of His Majesty's Treasury as to the importance of close co-operation between the Admiralty, War Office and the Ministry of Munitions in regard to Supply. Few patterns of Ordnance and Ordnance Stores are common to the Navy and Army, but where articles are required for both Services close touch with the Ministry of Munitions is maintained. In the case of shell and shell components the Admiralty and the Ministry of Munitions use a common clause, to the effect that no plant employed during the last six months by one Department may be used for work for the other, except with the previous consent of the using Department. *Paragraph 29.*—My Lords desire me to point out that the view of the Admiralty that, in the public interest, the Dockyard Expense and Greenock Torpedo Factory Accounts should not be presented to Parliament, was accepted by the Lords Commissioners of His Majesty's Treasury. In communicating their decision as regards the Dockyard Expense Accounts through the Treasury Emergency Standing Committee on the 11th March, 1916, it was stated that the Treasury were prepared to agree to the non-presentation of the Accounts to Parliament, but the wish was expressed that an official letter proposing this course might be sent to the Treasury for the benefit of the Public Accounts Committee. It is understood also that the question of the form that these and other manufacturing accounts should take during the war had already been the subject of consideration by the Treasury, in consultation with the Comptroller and Auditor-General and the Public Accounts Committee, and, in the circumstances, it was assumed that any necessary communication to the Public Accounts Committee would be made by the Lords Commissioners of His Majesty's Treasury."

1160. Have you got anything more to say about that, Mr. Barstow?—(Mr. *Barstow.*) I think not, Sir, except, perhaps, that I might add that the paragraph in the Treasury letter to the Admiralty as to the non-submission to this Committee of the Dockyard Expense and Greenock Torpedo Factory Accounts was not intended to convey any reflection on the Admiralty; it was rather an apology on the part of this Department.

Mr. *Leif Jones.*

1161. As to paragraph 26, will that come up again?—(Sir *Alfred Eyles.*) I think any point of importance will automatically come up again in connection with one of the paragraphs. I read this letter because the Committee has usually wished that it should be read in connection with the Treasury Minute, but each of the paragraphs is really referred to in the Comptroller and Auditor-General's Report. Take paragraph 21, for instance, that is dealt with in paragraph 2.

1162. That I know, but I was not quite sure that paragraph 26 would come up again as to the co-ordination between the Admiralty, the War Office and the Ministry of Munitions?—Yes, that is also referred to.

1163. By the Comptroller and Auditor-General?—Yes, and I think the Director of Contracts, who will be here, will be able to give the Committee any information about that.

1164. I wanted to raise rather a general point, which perhaps the Director of Contracts could not answer. I will put the question, and you can defer the answer if you like. I think you say there that the requirements of the Admiralty are different to the requirements of the Army and Ministry of Munitions, and, therefore, there cannot be the common supply which there might be if they were the same?—That is so.

1165. Are those differences necessary differences? I quite understand it may be so, but has every effort been made that the Admiralty, War Office and Munitions shall use the same articles as far as possible consistently with the interest of the services?—I think, if the Right Honourable Member would permit it, that question might be raised a little later when the Director of Contracts is here, because it is a matter with which he would be more competent than I am to deal.

NAVY APPROPRIATION ACCOUNT, 1916–17.

Mr. *Leif Jones*—continued.

1166. With regard to paragraph 1 of the Comptroller and Auditor-General's Report on page 13, Sir Alfred, you are nearly two millions below your estimate on the Appropriations-in-Aid?—*Yes, that is so.*

1167. When was that Estimate made?—The actual Supplementary Estimate for the additional Appropriations-in-Aid——

1168. For the seventeen millions?—Yes, for the seventeen millions, was dated 14th February, 1917.

1169. *On what was it based?*—On the best information available; but there are great difficulties in forming a correct Estimate as to the probable receipts in aid during war time. It consists, of course, very largely of supplies to our Allies, and it is very difficurt to forecast their requirements or the precise date by which we shall effect recovery.

1170. You made it a month later in the preceding year; it was late in March when it was presented?—I have not the date before me, but I have no doubt that is so.

1171. And then you got a million more, I think?—Yes. I think, at any rate, it is a convenience to be rather over than under, because an under Estimate may involve an excess Estimate after the close of the year. I think we probably erred on the safe side.

1172. I suggest to you that you erred a great deal on the safe side, and in making an Estimate on 14th February you ought hardly to have been two millions out?—All I can say is that it is extremely difficult to forecast the receipts.

1173. Why did you do it on February 14th? Was it presented to Parliament on February 14th? Parliament was up, was it not?—It was ordered to be printed on the 15th February, so Parliament must have been sitting.

1174. *I wonder why Parliament took so little notice* of it that it is not indexed in the Parliamentary Reports. Why did you take it on February 14th? This is not really an Estimate in the ordinary sense of the word at all. You take a total Estimate at the beginning of the year, and then at the end of the year you try to adjust the account. Why did you not *bonâ fide* do the thing, get right up to the end, and let us have it right?—Does the Right Honourable Member suggest that we should wait until the end of the year?

1175. You cannot do that; you must do it, shall I say, on the 30th March?—I do not think it could very well be postponed until the 30th March. For Parliamentary purposes it is usual for Supplementary Estimates to be presented about February.

1176. That is exactly my complaint against the account, that there is a certain devotion to the forms, and none to the realities of Parliamentary Control. This is not an Estimate; *you call it a Supplementary* Estimate, but *it is nothing of the kind. It is a sort of* rough guess at the amounts you actually have received up towards the end of the year, with an estimate no doubt of what you are going to receive in the next six weeks?—Quite so.

1177. There is no object in it; it was not for discussion, and it was not discussed?—The object of it is to carry out the directions of the Treasury that we shall get Parliamentary sanction to the use of Appropriations in Aid.

1178. That carries me on to another thing. When you are dealing with sums as large as this—*I do not* know that I ought to ask you the question, and I had better look to the Treasury—do you think it desirable to allow these large sums to be departmentally accounted for in this way, instead of being paid into the Consolidated Fund?—It is one thing when you are *dealing with a few hundred thousand pounds* or a few pounds in a Department, and when the total Appropriations-in-Aid run up to, say, three millions a year, but you have now got in one Department Appropriations in Aid amounting to nearly seventeen millions. Are you not falsifying your accounts seriously by allowing these to be dealt with in the Departments?—(Mr. *Barstow.*) I think not, sir, because a large proportion of that sum must be a repayment of advances which have already been made by the Navy from Navy votes; for instance, for the benefit of the Allies. The effect of carrying these receipts to the Consolidated Fund would, I think, artificially swell the net total of Navy Votes for the year.

1179. That is the general argument, I know, but the sums are so large that I do not like them being lost sight of in this way. However, I will not pursue that further, as it is a general matter. I think there ought to be a better adjustment, I must say. The whole situation is abnormal. As you say you are recovering sums for advances to the Allies, and I suggest while you are about it, if you are to do it in this way at all, you should try to make a better adjustment than you have succeeded in doing for the last two years. One year you are a million over——?—Do you think the Committee would prefer that, instead of a Supplementary Vote for the last quarter of the year, these Appropriations in Aid should be brought to account by an excess Vote after the amount had been ascertained?

1180. That is a matter to be considered; and I will put it to the Committee, and we will express an opinion; I am not entitled to do so, but something different is required I feel quite sure.

Chairman.

1181. (To Sir *Sydney Olivier.*) Referring to paragraph 2 of the Comptroller and Auditor-General's Report, "Vouchers, Papers, etc., not Forthcoming"; has the improvement of delivery been maintained any better since that paragraph was written?—I think not, sir. We have had correspondence with the Admiralty on the subject, and the Admiralty have sent us their explanation, which I understood the Accountant-General would give directly to the Committee.

1182. As to the third sentence in this paragraph, are the 55 vouchers which were outstanding for 1914-15 still outstanding?—I understand that a certain number of them have been discovered. According to my latest information I have been told that seventeen have been produced now, so that the arrears have been reduced so far. Those amount to £8,780.

1183. You mean that the seventeen represent over £8,000?—Yes.

1184. Have you got that statement for which you asked, which is referred to in the last sentence of the paragraph?—Yes, we have had detailed statements for 1914-15, which are being examined by the Officers of our Department, but we have not yet had the statements for the two following years.

1185. Have you got any further explanation to make about this, Sir Alfred?—(Sir *Alfred Eyles.*) Yes. As regards that last paragraph I should like to make it quite clear, although it is only in confirmation of what Sir Sydney has just said, that we have furnished evidence which I venture to think will satisfy the Comptroller and Auditor-General that he can safely pass the outstanding expediture for 1914-15. Although we may not have furnished the actual vouchers in every case we have in a large number of cases disposed of the outstanding bills. Some of those which were asked for and outstanding have been cancelled for good reason. We have furnished copies in certain other cases, and in the bulk of the cases we have furnished the supporting papers, that is to say that although we have not given the actual voucher, we have given such official papers as would justify the issue of the money. Certain of the bills have been passed by the auditor since that date. Then a considerable proportion of the amount outstanding represents advances to contractors, the subsequent transactions having been seen by the Comptroller and Auditor-General, and, of course, the clearing up of a contract settles all the advances, so I think this can be considered to be satisfactory. Then in certain other cases we have furnished a detailed description of the nature of the payment. In a few small cases amounting in the aggregate to about £200 I have not been able to give information, but with that exception I think I shall be able to satisfy the Comptroller and Auditor General

NAVY APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

Auditor-General that the expenditure is regular; at a very early date I hope to give him equally satisfactory evidence in respect of 1915-16 and 1916-17.

1186. (To Sir *Sydney Olivier.*) Do I understand the Comptroller is going to present a subsequent report to us on these things, or will you leave it over till next year?—I think it will be left over till next year, and be mentioned in the next year's report if necessary.

Mr. *Leif Jones.*

1187. I want to ask a little about the last paragraph but one. Last year, Sir Alfred, I think you told us that the arrears were not due to the staff or really to anything except the difficulties such as are described in this paragraph?—(Sir *Alfred Eyles.*) Yes. I think the difficulties are accurately described in this paragraph. The letter to which I referred just now, a copy of which was sent to the Treasury, described our difficulties, and they are very accurately summarised in this paragraph.

1188. What is the constant sub-division and regrouping of Departments which you speak of?—The reference there is to the general expansion of the Admiralty; the addition of new departments and the very scattered nature of the buildings. The Admiralty is located in twenty different buildings, and my own Department is located in twelve different buildings, scattered as far west as Knightsbridge and as far east as Newgate-street, so I think the Committee will readily understand that, with such a scattered Department, the transmission of papers is slow, and even the risk of the loss of papers is great.

1189. If you had more staff could you be more up to date?—No, it is not a question of staff—that is, quantity of staff—but it is very much a question of quality of staff.

Sir *Henry Craik.*

1190. And accommodation?—And accommodation.

Mr. *Leif Jones.*

1191. The difficulty of accommodation is insuperable, apparently?—The accommodation generally has been very unsuitable. Then it is not only that the Department is scattered, but we are constantly being moved. I find that not a single one of my thirty branches has escaped removal either in whole or in part, and some have been moved many times.

1192. You represent the Accounting side of the Admiralty. Do you consider that your staff suffers more than other departments of the Admiralty from bad accommodation, shifting, and so on?—No, I should not like to say that—I think all Departments have suffered a great deal.

1193. You do not think that you have been victimised as being comparatively unimportant?—I should not like to say that; I know I have suffered a great deal, but I do not think I suffer for someone else's benefit.

1194. You are a Supply branch of the Admiralty, and you are not obviously connected with the progress of the war, and is it not therefore that you are allocated to an obscure part of the building?—No, I have not that feeling, although I think I should have better accommodation.

1195. *Have you got enough accommodation*, such as it is?—I think we are very much crowded, but it is the scattered nature of the accommodation and the inconvenient houses in which we are placed that is open to most objection.

1196. Who settles where you do your work?—That is a matter which is in the immediate charge of one of the Assistant Secretaries.

1197. Does he consult you as to your accommodation?—Yes, he does; he does his best, but he has had very great difficulties to contend with.

1198. Are your wishes met generally?—As far as possible.

1199. How far is that?—The accommodation is restricted to the amount available. I am afraid there is very great difficulty in obtaining sufficient and suitable accommodation in the right place

NAVY APPROPRIATION ACCOUNT 1916-17.

Mr. *Leif Jones*—continued.

1200. Have you actually been refused accommodation or facilities that you asked for?—No.

1201. Then are you satisfied?—*I am not satisfied* with the nature of the accommodation.

1202. Have you asked for better?—In some cases yes, and every effort is being made to meet me.

1203. They have not refused you, but you have not got it. That I understand to be the position?—I think everything has been done that is possible.

1204. Are you sure that you assert yourself sufficiently?—Yes.

1205. How disagreeable do you make yourself?—I do not know that I have any special capacity for doing that.

1206. That is exactly what I am suggesting, Sir Alfred?—(Sir *Sydney Olivier.*) May I make an addition to what the Accountant-General has said? The Public Accounts Committee will remember that I called attention to the fact that our Audit Staff was very much handicapped by the want of accommodation at the Admiralty. Since then I was promised some further accommodation by the Accountant-General, but, unfortunately, he has been turned out of some of his rooms since, and has had to take the accommodation that he promised to us, so that we are left very much where we were.

1207. I think you might have told me that, Sir Alfred, when I asked you the question. I rather resent the Comptroller and Auditor-General's intervention to tell us of this definite failure on the part of the Admiralty to provide sufficient accommodation for the Accountant-General's Department?—The Accountant-General suffered by being driven out of his accommodation which he intended to supply us with.

1208. I suggest, Sir Alfred, that you are not being provided with the necessary accommodation for the highly important work that you have to do in the Admiralty?—(Sir *Alfred Eyles.*) I think there is a little misapprehension here. It is quite true, as Sir Sydney says, that we had hoped that in one of the annexes to the Admiralty, which is on the roof, it would have been possible to have brought his staff more together. I am as much interested in that as he is. It is a great convenience to me that the Comptroller and Auditor-General's staff should be near my work. That arrangement has fallen through, but I hope only temporarily. I have asked that a certain section of my Department should be moved from accommodation which was considered to be unsuitable, and the Assistant Secretary is trying to arrange that that shall be done. In connection with those arrangements the suggestion that the Comptroller and Auditor-General should go into that particular annexe did fall through. I hope to make other arrangements—*in fact,* I think the accommodation he will get will be better than that—so that I think for the moment we should leave it there. I am sure the Right Honourable Member will acquit me of any intention to mislead him.

1209. Certainly what I suggest is that, owing to your great kindliness, you are submitting to unnecessary restrictions placed upon your action by the Admiralty?—As I have said, the Admiralty is in very great difficulty as to accommodation.

Chairman.

1210. Are the Admiralty themselves restricted by outside authorities?—They have to appeal to the Office of Works.

1211. That is what I thought?—It is not within the Admiralty power to control matters of accommodation.

1212. The Admiralty has not the power to take offices, and that rests with the Office of Works?—It is all done by the Office of Works.

Mr. *Leif Jones.*

1213. Upon that, Sir, the Office of Works could not possibly refuse to the Admiralty necessary accommodation when demanded?—As a matter of fact, I believe all the available accommodation has been taken.

Sir *Hildred Carlile.*

1214. The Office of Works are not altogether responsible, I think, because there is a Cabinet Committee which

NAVY APPROPRIATION ACCOUNT, 1916-17.

Sir *Hildred Carlile*—continued.

which deals with the accommodation?—That is so in the last resort.

1215. In the last resort it is the Cabinet Committee which is really responsible, and not the Office of Works?—I say the Office of Works, because, of course, the Admiralty has to approach the Office of Works in all these matters.

Mr. *Haslam.*

1216. Are there not any large factories or shops which could be taken over for the specific purpose? Is there not some place where you could have your work consolidated better than it is at present?—I understand there is not. Our Separation Allowance work is carried on at Newgate Street in the City, where we started in a building belonging to the Oriental Carpet Company, and we have expanded there into four buildings. I may say before that this work was carried on in the National Gallery, which was really a very convenient building, because we were all on one floor. Now we carry it on in four buildings, with about five floors each.

1217. I should have thought that at the present time there would have been some large buildings empty in connection with some trades, or, at any rate, that some trades would be very glad to get rid of their buildings as their profits now are either negligible or absent?—The difficulty is to get the accommodation in the vicinity of the Admiralty.

1218. I understand you have gone to Knightsbridge; but could you not go Citywards?—We have gone Citywards; as I say, we have gone to Newgate Street.

Colonel Sir *Herbert Jessel.*

1219. Is it absolutely necessary that the whole of the Department should be housed in the vicinity of the Admiralty?—It is very necessary because all my branches have connection with some other parts of the Admiralty.

1220. You could not be cut right out of the neighbourhood and housed somewhere else?—The staff are mostly outside the Admiralty proper now.

1221. But they are pretty close?—Except Knightsbridge and Newgate Street they are fairly close. It is very essential if you are to ensure the prompt dealing with work that you should be properly accommodated. It is those difficulties which we have to contend with, but I may say that the Admiralty does not think the position is really unsatisfactory with regard to these vouchers and papers.

Mr. *Leif Jones.*

1222. The Comptroller does?—Yes, the Comptroller and Auditor-General has, of course, difficulties, and the Admiralty have every sympathy with him, but I think in a very short time he will be in a position to say that up to date he has been satisfied that all the expenditure in past Appropriation Accounts is justified.

1223. There is just one other thing. There are many labour-saving appliances now in the business world. Do you see all those at the Admiralty?—Yes, we use them a very great deal.

1224. Have you made any special study of labour-saving appliances?—They are constantly being brought to our notice, and we are adopting some, such as adding machines.

1225. By whom are they brought to your notice?—By the manufacturers and by the Stationery Office.

1226. Have you any special person or Committee charged with the duty of considering that point?—No, we have no special committee so far as I am aware, but a great many labour-saving appliances have been adopted of recent years.

1227. Is there anything in any of the Government Departments which goes fully into the question of labour saving?—Mechanical labour-saving devices?

1228. Of any sort?—So far as I know there is no special committee set up for that purpose. I do not know whether Mr. Barstow knows of any. (Mr. *Barstow.*) There is a committee set up by the Treasury to consider the question of Labour-saving appliances, and I believe it is in active work. Mr. Robinson, the Treasury Officer of Accounts, is chairman of the committee.

NAVY APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

1229. The matter seems to be one of considerable importance at a time of difficulty such as the present, because, according to the information given to me, the difference in the time of performing the same operation in different Government offices is enormous?—The Treasury entirely agree.

Chairman.

1230. (To Sir *Alfred Eyles.*) With regard to paragraph 3, Sir Alfred, "Emergency Procedure Arising Out of the War." Have you got anything to say about that paragraph?—The expenditure referred to in the paragraph has reference to an order which had been given to a company to keep their works open during the August holiday of 1914. Leave was being given to the staff of workmen at that time; they had to be recalled, and there was necessarily some delay before full use could be made of them. It was really a case in which the firm had a legitimate claim for actual out of pocket expenditure. They did claim the sum of £2,478, and, after their books had been examined the claim was settled for £1,650. The Comptroller and Auditor-General also refers there to the fact that the voucher relating to this payment did not reach him until very late. That is quite true. I have the voucher in front of me, but I really do not know where it was, or who was responsible for the delay; it was marked to the auditors as well as to other people immediately after payment, but I am sorry it did not reach them for so long a time.

1231. (To Sir *Sydney Olivier.*) Do you want to say anything more about the Emergency Procedure?—(Sir *Sydney Olivier.*) No, sir.

1232. Wtih reference to paragraph 4, Sir Alfred, it is stated that the total number of officers, seamen, boys, coastguard, and Royal Marines voted to the 31st March, 1917, did not exceed the total 400,000 according to the latest Returns in the middle of March; did it exceed the total at any time?—(Sir *Alfred Eyles.*) Not during the financial year.

1233. I think you have got some confidential copies of the Votes have you not?—I have not got them to-day. I did not think the Committee would take them to-day as they generally take them at the end.

1234. Then we come to paragraph 5 "Check on Overtime Pay of Dockyard Workmen." What about the difficulties at Invergordon?—The Committee will recollect that this question was raised last year by the Comptroller and Auditor-General, and I think the Committee recognised there were difficulties at Invergordon and they did not then at any rate press for the adoption of this check. I had the opportunity—my only opportunity of leaving town during the war—of visiting Rosyth and Invergordon last autumn, and I went closely into this matter, and I am glad to say that at Rosyth the check is now in full operation, and the Comptroller and Auditor-General is satisfied that it is working well. At Invergordon also I found it was possible to set up a proper check system.

1235. In spite of its being an open yard; it is an open yard at Invergordon?—That in itself did not present any difficulty, but the real difficulty was for some little time to get a proper staff. I have now been able to appoint an experienced time-keeper from one of the southern yards, and we shall get certain local people, and I hope the system will be in working order at a very early date.

1236. Referring to paragraph 6 "Lack of Co-operation Between Departments of the Admiralty," is that being overcome?—I hardly think this single incident is worthy of the description of lack of co-operation. It was an isolated case. A contract had been made for delivery at a certain price, but subsequently to that an arrangement was made by which the freight should be taken by the Admiralty, and a claim made on the contractors for repayment, but the papers relating to that subsequent arrangement were not referred to my Department.

1237. An oversight?—A pure oversight on the part of the Contract Department.

1238 Not

NAVY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

1238. Not a common practice?—No, I am not aware that any such case has happened before. I may say that there was no assumption in my Department that the rates were inclusive or exclusive because the contract which I have in front of me is a contract signed by the Director of Contracts, and the rates are distinctly shown as including delivery. The special arrangement about delivery was made subsequently.

1239. By whom?—By the Contract Department, but they unfortunately omitted to refer the paper to my Department.

1240. There was no loss to the public eventually?—No loss to the public, but we are obliged to the Comptroller and Auditor-General for drawing attention to the matter. It led, at any rate, to an earlier recovery of the charge for freight.

Mr. *Blair.*

1241. Has it been the means of enabling you to recover any other items?—No. It was an isolated case, and not at all likely to occur again.

Mr. *Leif Jones.*

1242. How do you know it was an isolated case?—We have never experienced any difficulty before, and the arrangements by which all contracts and contract papers are forwarded to us by the Director of Contracts have always worked smoothly and well.

1243. If the Comptroller and Auditor-General had not drawn your attention to this you would never have known of it?—I should never have known of this particular case except that I think we might fairly suppose that the contractors themselves would have drawn our attention to it sooner or later.

1244. Why? They would have got £9,000 more, would they not?—Yes.

1245. And you think they would have drawn your attention to that?—I really think they would have called our attention to the omission to claim the freight.

1246. No doubt the great majority would, but here and there one would not, and I am afraid the Admiralty must guard themselves against the dishonest in this world as well as other people?—It endeavours to do so by making the very best arrangement possible for the transmission of papers between Departments.

1247. I do not quite see why you say this is an isolated case; it is just a chance you knew about this case?—I think I am justified in saying that, because I have never had any real difficulty before in obtaining the necessary papers supporting the payments which I have to make.

1248. Sir Sydney, why does the Comptroller and Auditor-General say that the Accountant-General assumed that the contract was on the delivery basis?—(Sir *Sydney Olivier.*) I presume that was done on the information given us at the Admiralty. (Sir *Alfred Eyles.*) I think, if I may say so, the Comptroller and Auditor-General is justified in using that word, because it was used in the reply we gave. (Sir *Sydney Olivier.*) It is a quotation.

1249. Forgive me, but the reason I asked the question, Sir Alfred, was because you said the Comptroller's remark was not justified?—(Sir *Alfred Eyles.*) I thought it right to explain, with regard to the word assumption, that we had a definite contract in which it was distinctly stated that the rate includes delivery, and I thought it desirable that the Committee should quite understand that I do not pay on mere assumptions. I make no complaint against the Comptroller and Auditor-General.

1250. It was an isolated case?—The non-reference of the papers was an isolated case.

1251. (To Sir *Sydney Olivier.*) The Comptroller and Auditor-General says that this is an instance of lack of co-operation between Departments of the Admiralty which has come to his notice. Is it the only instance which has come under the notice of the Comptroller in this year?—I am not posted on that subject; none had come to my personal observation, nor were any

NAVY APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

placed before the Comptroller and Auditor-General when he made that remark in the Report.

1252. The paragraph rather suggests that there were other instances, and that you give one; is not that intended?—I am told there are certain small trivial cases it was thought not worth while to call attention to.

1253. So that this is not so completely isolated a case as Sir Alfred has said?—There may have been some other small oversights, which were not of a serious nature.

1254. In the sense that the sums involved were not large?—That is so.

1255. But in investigating a system the size of the sum does not really matter very much?—I think the Comptroller and Auditor-General would take the view that in a Department doing such an enormous amount of business as the Admiralty, there may occasionally be failures of reference between one department and another, and a paper may not be sent or noted that it should be sent just when that ought to be done.

1255. Do you think that the present system should be altered?—I should not like to give any advice on the alteration of the system.

Chairman.

1257. Paragraph 7, Sir Alfred, refers to the subsequent cancellation of contracts for machinery and hulls. What were those?—(Sir *Alfred Eyles.*) Those contracts were cancelled as a matter of policy; it was found that the work which was being undertaken was either not necessary, or that the time and labour could be better used in other directions. I have a note of the particular cases, but they really all hinge on matters of policy. In the first case, for instance, the actual expenditure under sub-head C.C.C. is £1,152, and the actual expenditure incurred was £6,684; but a very large part of the material was used in other directions, so that the actual sum written off was not large.

1258. Mr. Barstow, the Treasury had no difficulty in giving their sanction under those circumstances?—(Mr. *Barstow.*) No; each of these cases was referred to the Treasury Committee which enquired into it.

1259. I observe that paragraph 8 of the Report states that the two ships mentioned there were transferred to the Admiralty on payment of the attendant liabilities, the attendant liabilities being about £103,000; that is about the cost of the ships, is it not?—(Sir *Alfred Eyles.*) That is so. It was a matter which was decided by the Treasury. Three vessels altogether were handed over, and in connection with the two mentioned by the Comptroller and Auditor-General, there were certain charges to be defrayed, and the Treasury decided that, in taking over the vessels, the Admiralty should bear those charges.

1260. What would the charges be amounting to £103,000?—I have no knowledge of the actual transactions themselves, but perhaps Mr. Barstow could give some information about that. (Mr. *Barstow.*) Those two ships were forfeited under the Merchant Shipping Act of 1894. The ownership of them purported to have been acquired by two British companies, but they were, in fact, vested in unqualified persons. The Board of Customs, under the Statute, brought an action, which was heard before the President of the Probate, Divorce and Admiralty Division, and a settlement was arrived at, the Judge being of opinion that, although there had been a breach of the law, the defendant companies acted without *mala fides*, and there was a Decree of forfeiture in each case, the Crown undertaking to pay to the one company the sum of £43,000 and to the other company the sum of £59,000 for their ships. It was practically a payment for the ships.

1261. That was practically the price of the ships?—Yes.

1262. (To Sir *Sydney Olivier.*) As to paragraph 9, "Investigation into cost incurred by contractor," have you got the answer to that yet, Sir Sydney?—Yes; we have now received the answer from the Accountant-General. It appears that the question of recovering this sum of £1,122 which was estimated to be due is complicated by the fact that there is a claim for

18 *April* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. BARSTOW, C.B., and Sir A. EYLES, K.C.B. [*Continued.*

NAVY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

Munitions levy by the Inland Revenue Department. The firm's net profit for the year was only £2,400, of which the Inland Revenue authorities are claiming a little over £1,000 as Munitions levy. The firm's agreement to the refund of any amount in excess of this £1,000 is subject to the whole question of their losses and profits on Admiralty contracts for the year in question being reopened. It is considered essential that they should be allowed a fair margin of profit on the year's working, and any general re-opening of their contracts, such as that referred to, could only result in the firm receiving a reasonable profit on their Admiralty work if they were to be treated fairly and their interest in Admiralty work maintained. The Admiralty considered that the same result would be arrived at by leaving the matter in the hands of the Inland Revenue authorities, as if the whole question of the firm's losses and profit for the year were reviewed by the Admiralty and the firm allowed their normal profit. In view of this and of the fact that the Admiralty is not in a position to compel the firm to refund more than is demanded by the Munitions levy, it has been decided to leave the matter in the hands of the Inland Revenue authorities. That is the explanation of the matter.

1263. Have the Inland Revenue taken any further action? Do you know what the Inland Revenue have done?—No.

1264. Do you happen to know, Sir Alfred?—(Sir *Alfred Eyles.*) No; but no doubt they will follow out their usual procedure.

1265. What is the history of this recovery of £1,122 which is said to be referred to in the evidence before the Committee last year?—(Sir *Sydney Olivier.*) That expression "recovery" is perhaps a little unfortunate, because it was based on a misunderstanding of the evidence given by the Director of Contracts last year.

NAVY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

The Director of Contracts in his reply to No. 1685 said, "I have got the lump sum of £1,122," and I think the Comptroller and Auditor-General judged from that that the sum had been actually paid in, and as we could not trace it in the Admiralty Accounts he mentioned it in the Report. You see it has not been paid in. He meant that he had got the figure assessed at £1,122.

Mr. Leif Jones.

1266. In reference to paragraph 10 of the Report, "Payments to Contractors for Acceleration of Shipbuilding." Does the Admiralty Committee referred to in the paragraph sit regularly now?—(Sir *Alfred Eyles.*) The work has practically come to an end. It was set up some two years ago, I think, and it was before the Committee last year; they dealt with it in paragraph 25 of their Report, winding up with an expression of opinion that "having regard to all the circumstances the machinery ultimately adopted for the settlement of those claims appears to be satisfactory." The Comptroller and Auditor-General has here reported the result of the settlements for the year 1916-17, and there have been a few claims in 1917-18.

1267. Have they been dealt with by the same Committee?—They have been dealt with by the same Committee. It is hardly likely that the procedure will need to be brought into operation again.

Chairman.

1268. We will now proceed to paragraph 11: "Orders placed before conclusion of agreement—delay in fixing prices"?—Perhaps the Committee would allow the Director of Contracts to come into the chair at this stage.

Sir HARRY LIVESEY, K.B.E., and Mr. A. W. SMALLWOOD, C.B.E., called in; and Examined.

Chairman.

1269. (To Sir *Sydney Olivier.*) Have you got the answer to the inquiry which is referred to in paragraph 11, Sir Sydney?—I have the answer to that inquiry before me; it came in two days ago. At the end of the first part of paragraph 11 you will see these words: "It would appear from Admiralty papers since furnished that in some of the cases referred to, but not in all, the prices have been settled." The reply is dated 16th April, and it says, "For vessels ordered in 1915-16 all prices have now been settled. For vessels ordered in 1916-17 prices are outstanding with eight firms for seventeen contracts. These, it is hoped, will shortly be settled. In addition, there are several small vessels the prices of which are still outstanding, but this is due to settlement being held over pending investigation into actual costs which are being carried out. The papers containing the contract conditions in the case of the 'Calypso' are attached."

Mr. *Haslam.*

1270. Is great care exercised in not allowing any unnecessary ornamentation in the building of ships at the present time when it is not necessary? I am told that there is a great deal of brass work and ornamentation in these vessels which might be very reasonably avoided, and that would result in considerable economy to the State?—(Sir *Harry Livesey.*) The Contract Department has nothing to do with that, Sir. We cannot criticise design.

1271. Perhaps you would kindly tell me which Department to refer to?—The Controller. I have no control over design at all.

Chairman.

1272. I suppose, Sir Harry, you never do this if you can possibly help it, that is, start the work without fixing a price?—If we can possibly help it, no.

1273. Have you found it very difficult to help it?—In certain cases, yes; there are so many new things that neither the technical people nor the manufacturers can really tell the cost of.

Chairman—continued.

1274. Many new inventions?—Yes, new inventions.

1275. And new adaptations to ships?—Yes.

Sir *Henry Craik.*

1276. They must go on at once?—Yes.

Chairman.

1277. Coming to paragraph 12, which deals with the form of contract for shipbuilding on the basis of net cost plus percentage, is that working satisfactorily, Sir Harry?—By the new Form of Contract do you mean, the most recent one?

1278. I mean the one referred to in paragraph 12, on page 15?—That has been working up till now, but it has just recently been changed.

1279. Because it was not satisfactory?—It has been changed to bring it more into line with the Merchant Shipping Contract.

1280. Being equally applicable to the conditions of naval shipbuilding yards?—Yes, so as to bring the contracts more into line with one another.

1281. In fact, it is possible to build warships on the same lines as merchant ships?—There are certain circumstances which Mr. Smallwood can explain about the contract. (Mr. *Smallwood.*) The broad lines on which these two sets of contracts are made are really the same, that is to say, the labour and the material are paid for according to the actual cost incurred, but the amounts included for establishment charges and for profit are fixed amounts, bargained, and not bearing any relation to the varying expenditure on labour. The two contracts both rest upon those broad principles, and in that respect they are the same. They differ in no important financial aspect at all, but chiefly because one is a warship and the other a merchant ship, I mean on the technical point.

Mr. *Leif Jones.*

1282. You say, Mr. Smallwood, or Sir Harry said, that the form of contracts described here is not the one

18 *April* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. BARSTOW, C.B., Sir A. EYLES, K.C.B., Sir H. LIVESEY, K.B.E., and Mr. SMALLWOOD, C.B.E. [*Continued.*

NAVY APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

one now in use?—(Sir *Harry Livesey.*) Not the one now going to be used.

1283. Would you mind telling us in detail in what way the new one varies from this one? I will take you through it if I may. By this one, as I understand it, you ascertain the actual cost of labour and materials and incidental expenditure, the establishment charges are agreed, and then there is a fixed profit of 10 per cent. on the estimated cost, which is therefore a fixed lump sum. In what way does the new contract vary from that?—There are several different clauses, but I think it is very much alike. (Mr. *Smallwood.*) The new contract is in the essentials the same, that is, we say, "We shall pay a fixed profit which will be a definite percentage of an estimated cost."

1284. That is an important point. The payment made does not increase with the expenditure?—No, the profit payment does not increase. (Sir *Harry Livesey.*) Nor do the standing charges, which is rather more important than the profit.

1285. Quite so. Do you continue to give a bonus if the actual cost is less than the estimated cost?—No, I stopped that very nearly the first thing.

1286. Did you find that it was leading to high estimates?—Yes, but the greatest difficulty was that constant alterations in design meant constant disputes as to whether the bonus was earned or not, and it would have been a very great tax on the accountants.

1287. Does not the constant change of design also lead to a complaint that the lump sum agreed to be paid is insufficient?—It is more easily determined.

1288. Do you make any provision by which you can make an additional grant if in your opinion something more than the agreed lump sum has been earned?—(Mr. *Smallwood.*) There is nothing in the contract as to that.

1289. Do you think the new system will be more economical than the old?—(Sir *Harry Livesey.*) I think so.

1290. Has it this advantage, that there will be fewer disputes?—Fewer disputes and consequent economy; disputes always lead to extravagance.

1291. Occasionally people buy peace?—If you do not pay too much for it it is a good thing.

1292. Is that what you are going to do? That is exactly what I wanted to know?—Yes, I hope as cheaply as possible.

Sir *Henry Craik.*

1293. I want to be clear about this point—that the increase of labour, which might go on to an unnecessary extent, would not increase the payment to the contractor?—No.

1294. You have secured yourselves against any such effect as that?—Yes; and, in addition to that, I am decreasing the percentage of profit on account of the increased cost of labour.

1295. But the 10 per cent. in paragraph (2) here is on the estimated cost, and is not varied by the actual amount of labour?—Quite so; but that Estimate nowadays must be made on the price of labour, and therefore I have decreased that percentage in proportion.

Mr. *Haslam.*

1296. Is the Estimate in all cases a competitive Estimate?—The Estimate is made in the first instance by the Advisory Committee of the Technical Officers, and we have to agree it with the manufacturers, the Admiralty having the last say in the matter.

1297. Virtually, it is competitive, in the sense that more than one builder is asked to contract for the same type of ship?—Oh, no; you have many more than one builder.

1298. You have more than one, I say, and it is competitive in that sense?—I beg your pardon, yes.

Chairman.

1299. (To Mr. *Barstow.*) With reference to paragraph B, which deals with delay in settling claims in connection with repairs to ships at contractors' yards, had the Treasury Standing Committee any difficulty in

NAVY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

giving their concurrence to the procedure, or have you more to say about it?—They approved it, not because they liked it, but because there appeared to be no practicable alternative.

1300. The Admiralty reply is on page 19.

Mr. *Leif Jones.*

1301. When will this be done? Have we any hope of getting all these claims settled?—(Sir *Alfred Eyles.*) Yes, the number of claims dealt with in this way was only about 180, a very small number indeed, and it is not expected that there will be, at any rate, a further considerable number—just a few.

Chairman.

1302. With reference to paragraph 14, "Irregular entries in contractors' books," there, again, on page 19, is the Admiralty answer to the questions. Do you wish to say anything more about that, Sir Alfred?—No, I think the Admiralty reply explains the case very fully.

Sir *Henry Craik.*

1303. What could have been the object, if no percentage was paid on the expenditure of wages, in making the irregular entries, with the result of overcharging the Admiralty?—I do not think that was the object of the contractors, but that would have been possible under the form of contract under which this work was carried out.

1304. That is now abandoned?—It is not abandoned for all work; that form of contract still exists for repairs.

1305. The extravagant use of labour may still lead to an unduly high percentage?—Under certain forms of contract, yes.

1306. Have you no protection against that?—Except the local inspection.

Mr. *Haslam.*

1307. I presume the details are settled of all materials used and labour and so forth, which you are able, more or less, to check?—Yes, that is investigated locally; first of all, generally by the Recorders, who are there constantly, and by the Accountants, who go down to examine the claims.

Mr. *Leif Jones.*

1308. Have any alterations been made recently in your system of local inspection?—No, not generally; the only alteration is that the Recorders of Work, who formerly worked under the Inspectors of Dockyard Expenses Accounts, now work under that division of my Department which undertakes costing work and the investigation of claims. The advantage is that the Recorders work in close association with the Examining Accountants, and if there are any points which the Recorders may pick up they are immediately brought to the notice of the Superior Accountants. That is the only change that has been made.

1309. You have had rather an unpleasant case lately in the Courts, have you not?—A case which is still *sub judice.*

1310. Is it still *sub judice*?—Yes.

1311. I do not want to question you upon that, but the allegations there point to something being necessary in the matter of your Recorder's observations?—Yes; I cannot speak about that case; I am not acquainted with the details, and, of course, the case is still proceeding.

1312. But you need not wait for the decision of the Court to consider whether your side of the thing was properly done?—Oh, no; I think the system is satisfactory.

1313. Has no special attention been given to the statements in Court in that case?—The matter is constantly under review.

1314. Are you thoroughly satisfied that your own inspection is sufficient to prevent work being booked to you which is not done for the Admiralty at all?—Yes; I think the inspection is as satisfactory as it can be. It no doubt would be safer if we could have an enormous number of people. The check of the Recorders

Mr. *Leif Jones*—continued.

must necessarily be limited. You cannot check every man, but the check is, I consider, satisfactory. Possibly some few overcharges might occur, as well as undercharges, but I think it is satisfactory.

1315. The case I am speaking of is not in the year under review, but in the year under review have you come across cases of wrong bookings and overcharges by contractors?—Oh, the local investigators, no doubt, are constantly finding overcharges or undercharges, and certain cases have arisen for investigation of alleged overcharges, but I am not aware of any recent cases in which there has been any good ground for the charges brought. We had a case only last week, where anonymous charges were brought against a contractor, and the matter was immediately investigated, and it was found there was no foundation for them.

1316. What I am anxious to know is: if irregularities occur, is your system such that they would come to light pretty quickly?—Yes; I think it is as satisfactory as it can be.

Mr. *Haslam.*

1317. In the case of the purchase by the contractors of various materials from various centres, does the contractor in such cases give you the particulars of each of these purchases, so that you are able to check the costs against what has been paid by other persons?—Yes, that is done in great detail.

Sir *Henry Craik.*

1318. I presume, Sir Harry, this happened before you were in the Admiralty—this particular case?—(Sir *Harry Livesey.*) I believe all these cases occurred before I entered the Admiralty.

1319. Have you had your attention drawn to any such cases since you came to the Admiralty?—Those repair cases do not come under me, except the form of contract.

1320. Have you had any difficulty in regard to the form of contract?—I dislike the form of contract intensely.

1321. Have you done anything?—You cannot, because you cannot estimate what repairs are going to cost.

1322. Even your ingenuity has not enabled you to do that?—I wish I could; you cannot say beforehand what is going to be found wrong inside a ship.

1323. So that you are rather at the mercy, then, of the contractor?—You cannot help it, and you must depend upon your inspectors.

1324. You turn your attention to that?—I dislike the time and line contract intensely, and I am stopping it wherever I can.

Mr. *Haslam.*

1325. In contracts of this nature that is the only way you can carry out the work?—Yes.

1326. The interest in raising the price is merely the 10 per cent. on that raised price, so that presumably the ship repairer, if he is a fairly honest man, will try to keep down the cost for his own credit?—Yes.

Chairman.

1327. Sir Alfred, I see from your letter on page 20 that you say: "It is certain that systematic and serious irregularities must soon have been detected." Is that your opinion of your system, that they are bound to come out, sooner or later?—(Sir *Alfred Eyles.*) That is so. I may say that the system of check on the transport repairs and fittings to which this relates has been modified since, in the sense that it is brought under the repair system—that is, the same check is applied to it as is applied in the case of repairs generally. That system was not applied at the date of this transaction.

1328. With regard to paragraph 15, "Investigations into the cost of production," is your own costing department working well?—Yes; but perhaps I ought to say that, although it is carried out by an officer styled Assistant Accountant-General, in so far as he conducts the costings investigation he is responsible to the Director of Contracts. He also investigates the claims of contractors. It was found convenient and economical in working that this officer, who, as the Comptroller and Auditor-General says, is an eminent chartered accountant, should undertake both these duties. There is in this way an economy of labour in investigating both cost and claims, and it avoids overlapping at the contractor's works. The Director of Contracts will, no doubt, be able to reply to the question as to how the costing is working.

Chairman—continued.

1329. Is that system working well, Sir Harry? Has it got into good working order?—(Sir *Harry Livesey.*) So far as it goes, but we are completely blocked up with work.

1330. You cannot get people enough to do it?—No.

1331. It is bringing out valuable information on the question of costing?—Yes.

1332. And working well in the factories and so forth? Do you get much opposition?—I hope we shall in time avoid it.

1333. As to this inquiry into the cost, do you feel that the manufacturers and contractors meet you well?—No, I do not think the contractors like it; I do not think any contractor would.

1334. They do not prove themselves very obstructive, whether they like it or not?—No, now that we have got it on a more reasonable basis.

1335. You have altered the basis?—Yes, we only get one set of accountants there now instead of two, and sometimes three.

1336. Are you now applying for more help?—Yes, new offices and more help in the Accounting Department.

1337. You cannot get either one or the other at present, I suppose?—They are both constantly promised.

1338. Could you put your hand on the men if you could get the accommodation?—I think we may get some of them.

Mr. *Leif Jones.*

1339. What exactly is the condition of your costing department? How far does it ascertain the cost of a thing which you buy?—Do you mean the individual thing?

1340. The different individual things?—It tells me the actual cost of it in the works to the manufacturer.

1341. How far have you got in your investigations?—Have you covered the whole range of the things you buy?—Oh, no.

1342. What part of the area have you really got mapped out?—Do you want very exact figures?

1343. I would like any figures you are prepared to give me?—I have 120 investigations completed.* I have about 200 outstanding, and they are being done at the rate of 11½ a month.

1344. The slowness of the rate at which you are able to do them is due to the lack of staff?—Absolutely.

1345. How many men have you got on this work?—Mr. Whinney is here. (Sir *Alfred Eyles.*) Mr. Whinney says that he has six chartered accountants employed wholly on the costing side, but a good deal of the work is also being done by the staff investigating claims. The object is to save a double investigation.

1346. How many men could you employ profitably at this work?—(Sir *Harry Livesey.*) I think 160.

1347. That is more than twenty times your present staff?—One hundred and sixty would include extra desks. That is to bring me up to date; you would not want them the whole time.

1348. If those men were at your disposal you could keep them going at work?—For a certain time.

1349. Have you work for that number?—I do not know what Mr. Whinney has asked for; I think Mr. Whinney should answer these questions. I did not know he was here.

1350. I did not send Mr. Whinney away; he has modestly retired?

1351. (To

* Since this evidence was given Mr. Whinney has furnished me with further information, from which it appears that a number of investigations have been completed which were not included in the figures placed at my disposal, and that the average number of investigations completed monthly is correspondingly increased.

Mr. A. F. Whinney called in; and Examined.

Mr. *Leif Jones*—continued.

1351. (To Mr. *Whinney.*) You have heard my questions, Mr. Whinney?—Yes.

1352. I understand that you are at present getting through these investigations slowly with a staff of six men constantly engaged upon them?—It is difficult to say six definitely, because I mix up the staff with the staff which is engaged on the investigation of claims so as to minimise labour, but on the average I suppose there are about six. Of course, that is quite inadequate—it is nothing like enough.

1353. What would be adequate?—It would entirely depend on what the Director of Contracts sends on.

1354. He is beside you?—(Sir *Harry Livesey.*) I have told you that I am 200 in arrear.

1355. How many could you carry on simultaneously, supposing you could get as many men as you required?—(Mr. *Whinney.*) I could carry them all on simultaneously if I could get enough men.

1356. How many men would be enough?—Reasonably, I should think if I got fifteen or sixteen men I should be able to carry on all that the Director of Contracts required.

1357. If you got sixteen skilled accountants?—Yes, possibly less.

1358. In addition to what you have?—Yes.

1359. Say twenty in all?—That would be ample.

1360. Have you asked for these men?—I have.

1361. What answer has been given to you? First of all, whom did you ask?—First I asked the Director of Contracts, and then I asked——

1362. What did he say?—(Sir *Harry Livesey.*) I asked the Controller at once.

1363. Your request was passed on to the Controller? What did he say?—(Mr. *Whinney.*) Finally it came before the Board.

1364. What answer was returned to you finally?—I had asked that some chartered accountants employed in the Navy should be released, but it was found difficult to comply with this request. One man is employed as a stoker, and another as a ship's steward; a good many were employed as telegraphists; some were employed as assistant paymasters, and a good many more as paymasters. One or two were employed as ordinary seamen.

1365. Was the answer returned to you actually that skilled accountants whom you could use on this work were better employed as stokers or as ordinary seamen?—The answer was that it was difficult to release men.

1366. Papers have come to you which made that statement?—Yes.

1367. Is that where the matter rests now?—Oh, no; because upon reconsideration of the matter it was decided to release certain chartered accountants, and I am now getting them into my office.

1368. How many have you got in this way?—They are gradually filtering back; they promised me some assistant paymasters, the stoker has arrived, the ship's steward I have not seen yet, the able-bodied seaman is on his way, I believe, and the telegraphist has come.

1369. When all these arrive, how many will that be towards your staff of twenty?—I have applied altogether for sixteen. You see, the difficulty is that one does not want to have too large an influx, because all these men, even when they have come in, require a certain amount of training, that is to say, they require a certain amount of breaking in, and so one does not want to flood the office out.

1370. As you were looking for accountants, why did you look only in the Navy? Why did you not look to men outside?—I would like to explain that so far as the supply of chartered accountants and incorporated accountants is concerned the ordinary means for obtaining them has quite dried up, as both branches of the profession are entirely occupied with things and there are no men to come. In the ordinary way the methods of obtaining these men have failed, and so we had a meeting over at the War Office with a view to seeing if men could be obtained from the Army and from the Navy, and it was decided that if any men could be obtained from the Navy—chartered accountants or incorporated accountants—I should have the first call upon them, and if they were Army men, that they should go to the Ministry of Munitions or the War Office.

1371. May we take it that you have succeeded in impressing the Board of Admiralty with the importance of your demands?—That is so.

1372. And you are satisfied that if the men are available they will be forthcoming?—I think so. (Sir *Harry Livesey.*) I should like to say that I think Mr. Whinney's estimate is an under-estimate.

1373. For the amount of work to be done?—Yes.

1374. Do not discourage him!

Sir *Henry Craik.*

1375. Mr. Whinney, I presume the work of these accountants would have to be supervised by yourself to a certain extent; it would all have to come through your hands finally?—(Mr. *Whinney.*) That is so. There is a regular organisation set up in which there are a certain number of chartered accountants and incorporated accountants employed throughout the United Kingdom; these are under superintending accountants locally, and they again come under the organisation of the Admiralty, of which I am the head.

1376. Of course, more than a certain amount of work you cannot supervise; you might be flooded out?—It would be quite impossible; it is dealt with by the organisation.

1377. Has it not all to pass through the neck of the bottle ultimately?—Not the whole, because some of the cases are not sufficiently important.

1378. You do not think there would be any difficulty on your own part in overtaking the additional work?—None at all when backed up with proper organisation.

(*Mr. Whinney withdrew.*)

Chairman.

1379. (To Sir *Alfred Eyles.*) With regard to paragraph 16, which deals with variations in contractors' prices and the comparison of agreed prices with cost under net cost system, will you give us some further information on this matter?—The Director of Contracts will deal with that.

1380. Sir Harry, can you give us some information on paragraph 16?—(Sir *Harry Livesey.*) May Mr. Smallwood deal with this?

1381. Yes?—(Mr. *Smallwood.*) The first twenty vessels were steam launches, and they were ordered under conditions of very great urgency which compelled the Admiralty to go to firms who were not experienced in the work, and those inexperienced firms were unable to produce steam launches at what you might call the proper prices, at which the other firms did produce them.

1382. Even as much as 35 per cent. higher?—Yes; I think that is the reason for the whole of that increase.

1383. You were satisfied that it was impossible for them to produce at less?—These prices were gone into very closely by our technical departments on the spot with the firms, and we accepted them on their recommendation. We quite expected that they would be high, and we took their valuation of what was fair.

1384. What about the other twenty?—The first thing I should say about the other twenty is that they are forty—I mean that in that batch forty vessels were ordered, and not twenty.

1385. Of a uniform type?—Yes, all of them destroyers. I think, as a comparison is drawn there between the two forms of contract, perhaps the fair way is to take the broadest basis of comparison. Of these forty vessels twenty were built on a firm price and twenty on the cost basis of contract. I have to leave out eight of them because their design was different, and therefore they are not comparable. Then I have to leave out three more, because at the present date we do not know what they will

NAVY APPROPRIATION ACCOUNT, 1916-1917.

Chairman—continued.

will cost; the accounts are not in. That leaves twenty-nine, and of those twenty-nine, twelve were built on a firm price and seventeen on the cost basis. The increase of the firm price over what we had to pay on the cost basis is just over 8 per cent. That is a different result to the one shown in the question. In the same way I can show you, if it is of any interest, that the variations between the highest and the lowest in each category of tenders come out differently if you take the proper basis.

1386. But there is a great difference still?—The actual difference is this: On the firm price there is 6 per cent. between the highest and the lowest, and on the cost basis, instead of 13 per cent. there is 26 per cent. difference.

1387. Even so, do you agree that there is any advantage to the public in doing it on the cost system?—No, I do not.

1388. Taking it on the proper basis, the other turns out to be cheaper?—I do not believe at all in the costing system for building ships.

1389. In this case the average price paid for the vessels at fixed prices was 15½ per cent. above the price of the others?—*Yes*; 8 per cent. according to my correction; but still it is cheaper. Those facts do not, however, weigh in my mind against the rest of my experience in leading me to say that it is not cheaper to build vessels on a cost basis.

Mr. McKinnon Wood.

1390. Does your remark about their being inexperienced firms who undertook those ships apply to all those cases?—No; it was the first twenty I made that remark about, not these vessels.

1391. I am to understand that an inexperienced firm being asked to deal with a firm price of a thing they had not any experience in building, would give an ample price so as to cover risks?—Undoubtedly they would.

1392. And that would not be a fair test comparing that with the cost and percentage system?—Not a bit.

1393. Is it not the case that the uncertainty as to cost of material would make people put a large margin on the fixed price?—Yes.

1394. That is the explanation of it?—That is the principal reason why in our new ships we pay the actual cost of the labour and material.

1395. *You consider that by having a fixed amount of* profit instead of a percentage on cost you save considerably?—Yes. We think we have done the best we can; we fix what we can—that is, the charges and the profit—but if we tried to fix the labour and materials, we think we should do badly.

Mr. Leif Jones.

1396. Just one question: were any of these firms aware that you were making a sort of test and comparison of the two systems?—No; this test is made by the Comptroller and Auditor-General, I take it; he simply draws attention to the facts and places them in comparison.

Chairman.

1397. With regard to paragraph 17, Sir Harry; "Payment for early delivery not obtained"; apparently rather big prices were paid for early delivery, and the same prices were paid when the delivery was not early?—(Sir *Harry Livesey.*) I think there has been some misunderstanding—and you understand I had nothing to do with this—I am now giving what was reported to me. This is the answer: "It is not the case that high prices were obtained because of urgent necessity. Orders were placed in view of urgency before prices were settled. The firms reduced their prices and declined to reduce further if an additional six or twelve shields were ordered. The firms pointed out that there was a lot of work in the shields which had to be made to jigs and gauges so as to be absolutely interchangeable and capable of being put on to any mounting they were required for, and the reduced price was considered to be not unreasonable by the responsible technical department."

NAVY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

1398. Sir Alfred, does it come under you the question as to whether those prices should be paid although the contract was not kept by deliverance being made after long delay?—(Sir *Alfred Eyles.*) I do not gather that there was any breaking of the contract or any departure from the contract. (Sir *Harry Livesey.*) No; the Chairman says in consequence of these things not being delivered by the time.

1399. They were not delivered by the time, but yet the prices were not reduced; they promised them in six weeks and the same price was paid?—(Sir *Sydney Olivier.*) May I make an observation? I find this remark in the contract papers: "On being asked for a reduction of price two firms pleaded the intricate nature of the work, and a third firm pleaded the necessity for accuracy and exceptionally quick delivery as against the reduction in price."

1400. That is not the reduction of price of which I am now speaking. I ask whether, when these prices were fixed, they were paid the full amount, although they did not keep a part of the contract by early delivery?—(Sir *Harry Livesey.*) This is the answer I have given you. I am not competent myself to deal with it further. (Sir *Alfred Eyles.*) I gather that there was no stipulation in the contract that the price was dependent on the early delivery?—(Sir *Harry Livesey.*) There was no stipulation at all.

1401. I rather gathered from the paragraph that there had been, and that they were all promised on a particular date?—They undertook to begin on a certain date and they did not keep up. (Sir *Sydney Olivier.*) I have here a statement of the dates promised on the three contracts and the dates of delivery. (Sir *Harry Livesey.*) I ought to point out this, Sir, that the Contract Department has nothing to do with delivery. I give out the contract, but I do not know if it is delivered or even if it is paid for.

1402. That would rather go to Sir Alfred Eyles, who will know whether there is any penalty in those contracts for non-delivery and whether that has been enforced?—(Sir *Alfred Eyles.*) It has been explained before to the Committee that during the war it is hardly practicable for the Director of Contracts to insert a penalty clause. (Sir *Harry Livesey.*) It is inserted in some cases, but you can never claim it, because there are always questions as to material not being delivered, disputes with workmen, and all that sort of thing. Penalties nowadays are quite out of the question.

Mr. Leif Jones.

1403. In this case I understand the orders were placed before the price was agreed. Sir Sydney, why does the Comptroller and Auditor-General say that the orders were placed in view of the urgent necessity for early delivery? What is the ground for that statement?—(Sir *Sydney Olivier.*) The ground is that the D.N.O. was pressing for early delivery, and, in view of the emphasis of the demand of the D.N.O. for early delivery, they did place the orders at once.

1404. Who says that?—That is the Comptroller and Auditor-General's judgment from an inspection of the papers furnished to him.

1405. I rather gather from what is stated by the witness now that there was no relation between the price and the early delivery?—The Comptroller and Auditor-General gathered from the papers and from that observation which I have quoted that one of the contractors pleaded the necessity for exceptionally quick delivery against a reduction of price.

1405. I do not remember anything in the correspondence to indicate that the contractors made the price higher because they were asked to deliver soon?—There is that one statement, that on being asked for a reduction in price one contractor pleaded exceptionally quick delivery. (Sir *Harry Livesey.*) That is only one out of five firms. (Sir *Sydney Olivier.*) In all cases early delivery was stipulated for, although, as the Director of Contracts says, there was no penalty insisted upon where early delivery might not be made; for example, delivery was stipulated for in June, 1916, and none of the vessels were delivered until September.

In

NAVY APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

In a second case, sixteen were stipulated for delivery in May, 1916, and none of those were delivered until October. In a third case, delivery was stipulated for in June, and none were delivered until August.

Mr. *McKinnon Wood.*

1407. Was this an article they knew all about, or was there anything new about it?—(Sir *Harry Livesey.*) They were gun shields for six-inch guns.

1408. These are quite ordinary articles, and they knew what they would cost to make?—I take it so, and I take it they would have to adapt them to different ships to a certain extent, but I am not sufficiently technical to tell you that.

1409. Was there any difficulty in getting a price before you placed the order, because if you placed the orders and then asked for a price you would not be surprised if you got rather a poor price?—I am told that quotations were got for these things from five firms.

NAVY APPROPRIATION ACCOUNT, 1916-17.

Mr. *McKinnon Wood*—continued.

1410. Before you placed the orders?—Before we placed the orders, and the prices were discussed afterwards. The orders had to be placed.

Mr. *Leif Jones.*

1411. Was any surprise felt by the Contract Department that the price quoted by the five different firms was identical?—I was not there, so I cannot say.

1412. I thought you might have been informed on that point as well. I want to pursue this a little. This is not the first time we have had armament firms up as the subject of discussion. It has been suggested before the Estimates Committee and before this Committee that there was an armament ring (that is the phrase we used to hear about four or five years ago, although nowadays we wish the ring was larger), and it is very difficult to follow that those five offers could be genuine offers by separate firms without consultation or agreement amongst the different firms?—Perhaps you would allow Mr. Cobb to answer that question.

Mr. G. B. COBB, called in; and Examined.

Mr. *Leif Jones.*

1413. (To Mr. *Cobb.*) You have heard my question to Sir Harry. Will you kindly give us the answer, if you can?—It was the same price charged by those firms by agreement.

1414. All of them quoted an identical and excessive price?—Yes.*

1415. You knew that they were in conference one with the other in making their offers?—Yes.

1416. And you came to the conclusion at the Admiralty that they had agreed on an excessive price?—No.

1417. Pardon me. This paragraph 17 says: "Tenders were invited from five armour-plate contractors, all of whom quoted an identical and, in the opinion of the Admiralty, excessive price." Is that statement of the Comptroller and Auditor-General inaccurate?—There is a statement also that the reduced price was considered to be not unreasonable.

1418. I am at the top of the paragraph?—Are you quoting from the Comptroller and Auditor-General?

1419-1437. *Yes, it is his Report we are dealing with:* "A case has been brought to notice in which tenders for gun shields, etc., were invited from five armour plate contractors, all of whom quoted an identical and, in the opinion of the Admiralty, excessive price." The presumption is, interpreting that, that the tender was made to the Admiralty, not from five separate firms, but an agreed tender by five firms in communication one with the other. They all tender an identical figure, and that figure, in the opinion of the Admiralty experts, was excessive?—In placing the orders the Admiralty told the firms that the price quoted was considered very high, and requested them to reconsider it with a view to a substantial reduction. The firms offered a small reduction while giving reasons for the price quoted. The amended price was regarded as not unreasonable by the technical department responsible.

Mr. *Haslam.*

1438. Do large firms who are contracting largely meet together and determine a common price?—(Sir *Harry Livesey.*) Sometimes. I had a case yesterday where I had the same price from four different firms.

1439. In that case, is there no means of getting a check by some other method?—In a case like that I call them together, and I say, "Now, then, I must be shown what your profit is before I give the order, or I cost you."

1440. You cannot compare the prices quoted for a similar class of work made in Government yards?—No; I am talking about work quite outside the Government yards. In many cases we can do so, and we do.

Mr. *Haslam*—continued.

Chairman.

1441. Do you answer for paragraph 19, which deals with the prices of cordite, Sir Alfred?—(Sir *Alfred Eyles.*) No; this is a matter for the Director of Contracts, and may I mention that this is the last paragraph which concerns the Director of Contracts, and if the Committee are thinking of rising at a particular stage they might set free the Director of Contracts from further attendance by dealing with this paragraph now. (Sir *Harry Livesey.*) Do you want me to answer with regard to paragraph 19?

1442. If you please?—*Paragraph 19 is one of my 200* cases.

1443. It is not quite that; the last time we were told that the rebate was going to be taken off?—That is not my part; that is Sir Alfred Eyles'.

1444. The paragraph last year said: "The Admiralty have hesitated completing definitely any negotiations with the contractors, and have decided to obtain the advice of two well-known firms of chartered accountants with regard to the articles recently made which involve a reduction of a penny per pound to some cases and in others more"?—(Sir *Alfred Eyles.*) Yes; as to the recovery of a penny a pound I understood that was offered by certain firms as a definite and final settlement. All the firms were written to by the Director of Contracts with reference to this penny a pound, and one firm did send in a cheque for a sum representing the penny a pound on the supplies in 1916. Two firms withdrew their offers altogether, and it was not as I gathered the policy at that stage to proceed further to enforce the recovery of this penny from all the firms, because it was determined to investigate the cost before taking further action.

1445. Those are the unsettled ones which Sir Harry refers to?—Yes; as a matter of fact the investigation of the firms costs to definitely fix the cost for 1916-17 is proceeding now. It is hoped that the work in the case of two firms will be completed by the end of this month, and when that investigation is complete, then the necessary action will be taken.

1446. Will you have those figures in time before this Committee concludes its sittings?—I could not say.

1447. If they do come in time perhaps you will let the Committee have them?—Certainly.

(*The witnesses withdrew.*)

* The witness did not understand the question to include the term "excessive."

Thursday, 25th April 1918.

MEMBERS PRESENT:

Mr. Baldwin.
Mr. Blair.
Sir Hildred Carlile.
Sir Henry Craik.
Mr. Haslam.
Sir Charles Henry.
Mr. Higham.
Mr. Leif Jones.
Mr. Jowett.
Sir Robert Williams.
Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir SYDNEY OLIVIER, K.C.M.G., C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

NAVY APPROPRIATION ACCOUNT, 1916-17.

Sir ALFRED EYLES, K.C.B., called in; and Examined.

ON VOTE 10.

WORKS, BUILDINGS, ETC.

ROYAL NAVAL CORDITE FACTORY.

Chairman.

1448. (To Mr. *Barstow.*) Referring to paragraph 21 of the Comptroller and Auditor-General's report on page 16, Mr. Barstow, has the Treasury yet given its sanction to the increase of expenditure over Estimate?—No. A letter was received from the Admiralty last Thursday containing the particulars about the Royal Naval Cordite Factory, and the Treasury have not yet given their sanction, and have, in fact, asked some further questions arising from the Admiralty letter.

Chairman—continued.

1449. The question of the engineers' remuneration is included in the same matter?—That is also raised in the Admiralty letter, and the Treasury have made an inquiry on that point also.

1450. (To Sir *Alfred Eyles.*) Can you tell us what the outcome is going to be, Sir Alfred?—Perhaps the Committee would desire to examine the Director of Works upon this paragraph.

Mr. T. SIMS, C.B., called in; and Examined.

Chairman.

1451. (To Mr. *Sims.*) Can you tell us, Mr. Sims, a little more about this paragraph with regard to the increased expenditure on the Naval Cordite Factory, and also the want of adjusting the engineers' remuneration?—I think the engineers' remuneration was adjusted and sanctioned by the Treasury.

1452. Even when it was evident that the amount was so much larger than was originally intended?—When the remuneration was first discussed the firm of Consulting Engineers suggested terms which the Treasury thought were high.

1453. What were they?—I think the terms they asked were 5 per cent., and the Treasury thought that was high, and we took outside opinion as to what would be a reasonable percentage on a work of that magnitude, and it resulted in a compromise of 3½ per cent., which the Treasury sanctioned.

1454. On the expenditure of £850,000?—On the expenditure of £850,000. I think I ought to say that as the work grew the firm voluntarily suggested a reduction in their fees. We did not report the reduction to the Treasury because it was in the nature of a saving, and we did not think we wanted to be covered for that; but they, and also the contractors, I think, saw that the work was getting a much larger thing, and they both voluntarily offered to take something less.

1455. You did not consult the Treasury as to whether that diminution of remuneration was sufficient?—We did not.

1456. Even when the cost mounted up to a million beyond the original Estimate, you still kept to the rate of remuneration for the engineers?—Well, the sliding scale, which was adopted at the suggestion of the firm, was 3½ per cent. on the first £600,000, 3 per cent. on a further £900,000, and 2½ per cent. on the expenditure in excess of £900,000.

Chairman—continued.

1457. That is up to a million and a half, in fact?—Yes, and then 2½ per cent. on the excess.

1458. Over the first million and a half?—Over £900,000.

1459. No, over the first million and a half, surely?

Sir *Charles Henry.*

1460. Did he get 3½ per cent. on £600,000?—3½ per cent. on the first £600,000, and then 3 per cent. on further expenditure up to £900,000.

1461. So that he would have the 3 per cent. on £300,000?—Yes, he had his full percentage up to £600,000.

Sir *Hildred Carlile.*

1462. What was the rate on the remainder?—2½ per cent. on the expenditure in excess of £900,000.

Chairman.

1463. The Admiralty thought that was not unreasonable?—We thought it was a very gracious act on the part of the firm.

1464. (To Mr. *Barstow.*) May I ask, Mr. Barstow, what questions you have asked about that? Do you think it is unreasonable?—The Treasury have suggested to the Admiralty that the 2½ per cent. on the second million pounds expended, in view of the greatly enhanced cost of construction of factories as the war has proceeded, represents at least as much remuneration to the firm as 3½ per cent. on the first million would.

1465. In fact, that the mere fact of the money being larger did not increase the work the firm had to do, because the work remained the same, although a larger amount had to be done?—The work remained the same; in other words, a less amount of work was done for the same amount of money as the construction cost went up. The firm's staff, their draughtsmen and so on,

Chairman—continued.

on, would, no doubt, have a certain increase, but probably not in the least in proportion to the cost of construction. (Mr. *Sims.*) I am afraid the Consulting Engineer would probably not be disposed to agree with that view; a great deal of the work they carried out was not merely simple construction work, but it involved the designing of very complicated machinery.

1466. With regard to the last million or so of the money?—With regard to the whole of the work, sir.

1467. But the complicated machinery, I imagine, was thought of from the beginning?—It was—yes.

1468. And therefore the complicated machinery was dealt with in the first £600,000?—I should like to explain this, sir, that I am at a disadvantage in that I have had nothing to do with this matter.

1469. Was that done by Sir Frederick Nathan?—Yes.

1470. Is he here?—He is here.

1471. Perhaps Sir Frederick would not mind volunteering some information to us upon this?

Sir *Charles Henry.*

1472. May I ask one question, and it is this: Have the engineers, as I make it on your scale, been remunerated to the extent of about £55,000?—£54,000, I think it is.

Colonel Sir FREDERIC L. NATHAN, called in; and Examined.

Chairman.

1473. (To Sir *Frederic Nathan.*) Will you tell us about this remuneration, Sir Frederic?—I was asked by the then First Lord to come to the Admiralty to advise in connection with technical matters about this factory on the 1st March, 1915. Before then negotiations had been taking place between the Admiralty and a firm of contractors in connection with the erection of a cordite factory, and I gathered from the papers that the contractors had quoted an approximate estimate of £850,000 for a factory to meet the Admiralty requirements.

1474. Were they to be the contractors for the whole work?—Yes; they were going to put up the factory. I do not know exactly what the negotiations were, but they were going to put up the factory.

Sir *Charles Henry.*

1475. Had the site been fixed?—No. (Mr. *Sims.*) It was a different site, Sir. (Sir *Frederic Nathan.*) But I gathered that the negotiations were not considered satisfactory by the First Lord, and he decided that, instead of subsidising the contractors to that extent to build a factory, about the position of which there was some question after the war, and so forth, it would be desirable for the Admiralty to have a factory of their own—that is to say, to expend the money in building a factory of their own. That was agreed to.

Chairman.

1476. The first factory was to be the factory of the contractors, and not of the Admiralty?—I think there was some question to that effect, but I am not clear about that. There were objections to subsidising any contractor to that extent. The proposal was for them to build their own factory on their own land, and to possess it in perpetuity. I may add in that connection that I have been connected with the manufacture of cordite from its infancy; I was superintendent at Waltham for many years, and it was always a grievance with the Navy that they should have to get their cordite from a military establishment.

1477. They want a different class of cordite, of course?—No, it is the same cordite to all intents and purposes. When I came to the Admiralty on the 1st March, 1915, that was the position, and I was asked whether I considered the estimate a fair and reasonable one, and likely to be enough to cover the work which was then contemplated, and I gave it as my opinion that I thought it was. That estimate was, of course, based on pre-war prices for labour and material. I think, even at that time, one foresaw that there were likely to be increases in both directions, and some margin was allowed for, but, in my opinion, at that time the sum was fair and reasonable. That factory was a very different factory to the factory which is in existence at the present date. I left the Admiralty to take up my present post towards the end of November of the same year, 1915, and some little while before I left various increases and additions were contemplated

Chairman—continued.

in that factory; they came along pretty rapidly, and were urgently required, and the work was pushed on. It was found very difficult for the Consulting Engineers to make anything like a definite Estimate, and the amount which was originally considered sufficient for what was then required was very much exceeded. But I cannot speak from my own personal knowledge after November, when, as I say, the additional increases were being rapidly agreed to. The factory was designed originally to be a permanent factory, not only a war establishment; it was therefore necessary to build it on permanent lines, and in view of the labour position, which was even then becoming a little difficult, and in view of my experience of a very old-fashioned factory like Waltham Abbey, I considered it desirable that everything in the way of labour-saving appliances should be introduced in the design of this new factory, which, of course, added to the original cost, but which, I hoped, and I believe the hope has been more or less realised, would result in economical production. Then, of course, another point arose, that shortage of labour would entail dilution, which meant providing accommodation for female labour. That was one thing, even in my time, which started to increase the expenditure incurred. Then another point was that the original estimate was based on a sort of, I will not say ideal site, but on an unknown site. When we came to lay out the factory, and adapted the site which had already been selected before I had anything to do with it, there was a great deal of work entailed, it was not a flat site, in arranging our buildings on that site so that the intercommunication between the different danger buildings should be on a level, which is very essential, both for economy of working and for safety. You cannot push or haul trucks containing dangerous explosives up and down steep inclines. Then as to the water, one always more or less expects to find water conveniently handy, but that was not so in this case.

1478. There was no suitable water for the purpose?—That is so; there was water, but it did not comply with the Admiralty requirements and for that reason we had to embark on a very large pumping station some miles away, I forget how many.

1479. I think eight to ten miles. (Mr. *Sims.*) It is about six miles. (Sir *Frederic Nathan.*) It was a very big pipe line, with, I think a 16-inch diameter pipe, and then a very big reservoir at the factory itself. We had to surround the factory with an unclimbable fence, which was not contemplated in the original Estimate.

1480. That was done at the request of the Metropolitan Police?—Yes, the Metropolitan Police, who guard all public establishments, required a fence of that nature.

Mr. *Leif Jones.*

1481. May we know the cost of the fence?—A very much cheaper and simpler fence would have answered all practical purposes.

1482. If I may, I very much desire to press the point of

25 *April* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. G. BARSTOW, C.B., Sir A. EYLES, K.C.B., Mr. T. SIMS, C.B., and Col. Sir F. NATHAN. [*Continued.*

NAVY APPROPRIATION ACCOUNT, 1916-17.
On Vote 10.—Works, Buildings, &c. Royal Naval Cordite Factory—*continued.*

Mr. *Leif Jones*—continued.

of the cost of this fence. I have heard of it; the fame of it has spread throughout the country, and I am very anxious to ascertain exactly what it has cost the taxpayers to erect this fence which, in the opinion of the people working inside the fence, as far as I can make out, is no particular protection. I do not quite see why the opinion of the Police as to what is necessary is put against the opinion of the practical people who have to manage the factory and keep it safe. Therefore, I am very anxious to know the lump sum which the country has paid for this fence round the factory?—I do not know the figure. I thought it was somewhere about £6,000, but I am told that it was £21,000.

Mr. *Haslam.*

1483. I understand that the site was not suitable for the purpose, and also that there was not suitable water. How does it happen that a site is chosen where there are those hindrances to production, and by which the cost is very much increased?—Of course, when I say "unsuitable," I mean that relatively. In a great many respects it was an admirable site. It was in open country, far from dwellings, and that is the first point of importance. It had a convenient main-road approach; a main line of railway ran along one boundary, where sidings could easily be put it, and it had in certain places small hills, which were thought to be desirable, and they were desirable for certain processes which had to be conducted at a higher level than others. You can never find an actually ideal site. The advantages of that particular site outweighed, I imagine, in the minds of those who selected it the disadvantages, which were the fact that water would have to be brought for some little distance, that might happen on almost any site, and also the fact that a considerable amount of earth evacuation had to be done because of the necessity, as I have explained, of having your intercommunications more or less on the level.

1484. I understand the fact that water of a proper quality was not present on this site was known before the site was chosen?—I am not in a position to say that, because the site was chosen before I came into it at all. There was also sea communications, which was another advantage. Then the further extensions which came on after my time were, first of all, a 50 per cent. addition to the factory, and then the addition of entirely new processes and new manufactures. Therefore, in that connection, of course, the Consulting Engineer work was in a great measure of more complexity and more difficulty for the extensions than for the original lay out of the plan.

Chairman.

1485. You said "new processes" and "new manufactures." The new manufactures were the manufacture of part of their own material, which the factory decided to make for themselves instead of buying?—Yes.

1486. But the new processes, I imagine, were really new inventions?—Yes, probably the expression "new manufactures" would have covered the other as well, but there were certain new processes also (*giving instances which it was directed should not be recorded*).

1487. So that, with all these additions, you think the extra remuneration for the Superintending Engineers on the second £300,000 was probably quite justified?—I think even more so than the first; they were almost entitled to a higher percentage than on the first £300,000, which, of course, covered rather more than the ordinary Consulting Engineer's fees.

1488. Were they designing engineers as well?—Yes: their work covered not only the construction of the factory, but its equipment; that is to say, the whole of the drawings and specifications for the plant and the inspection and the erection was all covered by the Engineer's fee. There was no separate mechanical Engineer; they brought their own mechanical Engineer into it, so that the fee was a 3½ per cent. fee, not only for the construction, which is the ordinary

NAVY APPROPRIATION ACCOUNT, 1916-17.
On Vote 10.—Works, Buildings, &c. Royal Naval Cordite Factory—*continued*

Chairman—continued.

Consulting Engineer's work, but also for the mechanical engineering part of the factory, which is a very big business.

Sir *Henry Craik.*

1489. I understand the supervision of these Consulting Engineers did not extend to the approval of the cost simply of the work which was being done?—That is so. The Consulting Engineers rendered, while I was at the Admiralty, a weekly statement of expenditure in detail, which went to the Accountant-General.

1490. But it was no part of their business to check the expenditure?—Undoubtedly, and they had a very complete and what I considered a very satisfactory way not only of checking the expenditure but of allocating the expenditure to processes and sub-divisions of processes, so that eventually, when it became a question of manufacture and of costing products, the proper depreciation percentage on both the plant and the buildings for any particular process could be arrived at, having carefully allocated the original capital expenditure to that particular process and building.

1491. What I was driving at was this: is it not an unsatisfactory method of remunerating the supervisors to put them on a percentage when it is their business to curtail if possible the expenditure?—I think I would like you to ask a consulting engineer or somebody of that nature to give advice on that point. So far as my knowledge goes that is the universal practice when you employ consulting engineers.

Mr. *Leif Jones.*

1492. The consulting engineers got this percentage, amounting in all to nearly £54,000 on the job. Were the contractors paid any percentages in connection with it?—None at all.

1493. That was the total payment made by the Admiralty for services, as it were, apart from the actual cost of construction?—That is so, but I think probably Sir Alfred Eyles would be able to tell you that better than I can. (Sir *Alfred Eyles.*) That is so.

1494. When the contract was entered into did the Admiralty think it absolutely necessary to have it on this cost and percentage basis?—(Sir *Frederic Nathan.*) I understand yes, because it was a very urgent service. The First Lord impressed that upon me at the time, and to have waited until designs and bills of quantities could have been got out to go for lump sum tenders would have meant a delay of probably some months.

1495. Had the engineers any motive at all for keeping down cost?—It was a firm of very high standing, sir.

1496. Except for the injury to their reputation they had no motive for keeping down cost?—No, I think one may say that is so.

1497. The monetary incentive was rather the other way, was it not?—It was.

1498. The more they spend the more they receive?—I have had previous transactions with the firm, and my impression then was, and is still, that they did exercise the strictest control, and made every endeavour to cut down expenditure.

1499. Now take the fence. Did they get a percentage upon the fence?—I imagine so, yes.

1500. It was not done at their instance, but at the instance of the police?—It was not their suggestion at all.

1501. Is that done everywhere else where there are explosives factories?—It has been done in one or two.

1502. You said that attention was paid in putting up the factory to economical production; has that been realised?—I think quite. I have not had any access to cost accounts or anything of the sort since I left, but no doubt some of the Admiralty representatives will be able to tell you that, but I do know that from the point of view of consumption of material it is working very economically, because at the request of the Admiralty my branch (I am at the Ministry of Munitions

25 *April* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. G. BARSTOW, C.B., Sir A. EYLES, K.C.B., Mr. T. SIMS, C.B., and Col. Sir F. NATHAN. [*Continued.*

NAVY APPROPRIATION ACCOUNT, 1916-17.
On Vote 10.—Works, Buildings, &c. Royal Naval Cordite Factory—*continued.*

Mr. *Leif Jones*—continued.

tions looking after similar work in connection with Ministry of Munitions explosives) exercises a supervision over what we call process efficiency; that is to say, we see that the best use is made of raw material. In that respect the Naval Cordite Factory compares very favourably indeed with some of the trade factories.

1503. In the quantities used for the production?—In the quantities of raw materials used per lb. or ton of product.

1504. Do you know what it costs in cash to produce a pound of cordite at the Naval Cordite Factory?—I do not.

1505. Does anybody know?—I have no doubt the Admiralty Finance Department can tell you that.

Sir *Charles Henry.*

1506. Do you know that the cost of the production of cordite has increased very considerably during the last three or six months?—It has. Under our contracts we have a fixed price, based on what we consider the proper consumption of raw material and the wages at the time the contract was passed, with a sliding scale, so that any increase of wages results in a corresponding increase in the price; but, of course, no controlled establishment is allowed to increase wages without the consent of the Ministry of Munitions. So that where we authorise an increased expenditure on wages we have to allow for that in the price of cordite. To that extent, of course, the cost of cordite is going up.

Mr. *Leif Jones.*

1507. May we know what it costs to produce a pound of cordite at the Naval Cordite Factory?—(Sir *Alfred Eyles.*) I am afraid I have not got the actual cost, but I understand from the engineers that it is considered to be very low.

Chairman.

1508. You can get it for us; the Committee would like to have it?—I have no doubt it can be got.

Mr. *Leif Jones.*

1509. I would like to know about this because I went into the price of cordite on this Committee about two years ago, and the Ministry of Munitions were very much concerned with the matter. We had evidence from the Ministry of Munitions as to the cost of cordite, and there was a quarrel with the Admiralty as to whether they should use a particular form of cordite, and I think they successfully resisted. Now they are producing this cordite at the Naval Cordite Factory, and I want very much indeed to know what it is costing the Admiralty to get its cordite there?—I understand it is a very low price.

1510. From what point of view, as compared with what?—As compared with other prices.

1511. It must be considerably more than it was; the increase in wages and the cost of materials, and so on, must have raised it?—This is what I understand. (*Here followed certain evidence by both Sir Alfred Eyles and Sir Frederic Nathan which was directed not to be recorded.*)

Sir *Hildred Carlile.*

1512. Can you tell us over what period the amount earned by the engineers was spread?—(Sir *Frederick Nathan.*) No, I cannot, because I ceased my connection with it in November, 1915.

1513. Before it was completed?—Long before it was completed.

1514. It might be a year or two years?—Considerably longer than that. (Mr. *Sims.*) Nearly three years.

1515. It is now complete, is it?—It is now practically completed. (Sir *Frederic Nathan.*) Of course, the original factory was complete long before that, but there were additions as I have explained. (*Giving further evidence which was directed not to be recorded.*)

NAVY APPROPRIATION ACCOUNT, 1916-17.
On Vote 10.—Works, Buildings, &c. Royal Naval Cordite Factory—*continued.*

Mr. *Blair.*

1516. Can you let the Committee know if the Consulting Engineers approved of the erection of this fence costing £21,000?—They had no say in the matter at all.

1517. They did not say it was unnecessary?—No.

1518. Although it added to their remuneration?—Quite so.

Sir *Charles Henry.*

1519. With regard to the Engineers, besides drawing up the plans and employing mechanical engineers to do their part of the work, did they have the supervision of the work as it was actually going on?—Yes.

1520. The entire supervision?—They had resident engineers, both construction and mechanical, and staff there.

1521. Did they have the supervision of the cost of the material supplied to the works?—Yes, for construction purposes.

1522. They also had the supervision of labour to see that they got adequate return from the labour employed?—Yes.

1523. All that was included in their remuneration?—That is so. I may say that the work was carried out in close touch with my Department; I spent probably my mornings at the Admiralty and my afternoons in the office of the Consulting Engineers, and every detail, every step, every design was thoroughly discussed and gone into.

1524. It would not have been possible to carry on this work on the quantity basis?—No, for the reason which I gave originally, that so far as the construction work was concerned it would have meant very considerable delays which the Admiralty quite rightly, in view of the cordite position at the time, considered it was not desirable to embark upon. As regards the machinery, the consulting engineers prepared the designs and specifications, and they were sent out by the Admiralty to tender, and the tenders were received and sent to me by the Contracts Department, and I made my recommendations upon those tenders in consultation with the Engineers, and it was the Admiralty who placed the contracts.

1525. It was only the construction and the material which were dealt with on the cost and percentage basis?—Yes; none of the plant or machinery. (Mr. *Sims.*) May I intervene? I did not, I think, make it clear, in connection with the fees, that when the Engineers asked 5 per cent. as their terms, it was only in relation to the construction works, and, subsequent to that, Sir Frederic Nathan wished to have the mechanical engineering part of the work also carried out by the Consulting Engineers, and then the Engineers fixed the fee of 3½ per cent. They estimated at that time that if they had done the construction work only, it would have been on a basis of about £300,000, whereas combining the mechanical engineering with the constructional work it was on an estimated cost of about £600,000, and they offered to do the combined work at 3½ per cent.

Chairman.

1526. I do not know whether Sir Frederic Nathan or Mr. Sims can better answer this question: Before the war, I understand Waltham made cordite for Navy and Army alike?—(Sir *Frederic Nathan.*) Yes. Of course, the trade did a proportion of the total requirements as well. I think the proportions were two-thirds and one-third.

1527. One-third Waltham and two-thirds the trade?—Yes.

1528. What is the proportion of cordite used by the Navy and Army to the Waltham production?—It was almost entirely for the Navy, because at that time the Army requirements were for field artillery and small arm ammunition only. There were very few big guns in those days. Just the fortress artillery, whereas the Navy, of course, had their big 12-inch guns on board ship.

1529. Therefore

25 *April* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. G. BARSTOW, C.B., Sir A. EYLES, K.C.B., Mr. T. SIMS, C.B., and Col. Sir F. NATHAN. [*Continued.*

NAVY APPROPRIATION ACCOUNT, 1916-17.

On Vote 10.—Works, Buildings, &c. Royal Naval Cordite Factory—*continued.*

Chairman—continued.

1529. Therefore Waltham will now have withdrawn from it the greater proportion of its work?—After the war, yes, and now entirely; they are making no cordite for the Admiralty at all now.

1530. Directly after the war, Waltham will find itself with no Navy work at all to do, and therefore a very small proportion of its original work left to it?—What is going to happen to the cordite after the war is a very difficult problem. The percentage now is so enormously in excess of any peace requirements that the large bulk of the factories will have to be closed down, and Waltham may share that fate, because, although it was a factory I was connected with for many years, it is a very uneconomical factory to work. It was designed in the days of Queen Elizabeth for making black powder.

(Sir Frederic Nathan withdrew.)

Sir *Alfred Eyles.*] I take it there will be no objection to the elimination of any expressions that have been used by Sir Frederic to which the Admiralty may take exception, and perhaps the Committee will allow the evidence to be seen by the Admiralty for that purpose, as Sir Frederic has spoken quite freely.

Chairman.] Certainly; before it is printed, of course.

ON VOTE 11.

MISCELLANEOUS EFFECTIVE SERVICES.

POSTAL AND TELEGRAPHIC COMMUNICATIONS.

Chairman.

1531. (To Sir *Sydney Olivier.*) With regard to the last sentence in paragraph 22, Sir Sydney, have those inquiries yet been answered?—Yes, the Admiralty have now replied, and accepted the suggestion of the Comptroller and Auditor-General.

Mr. *Leif Jones.*

1532. (To Sir *Alfred Eyles.*) I put this question last year, Sir Alfred, and I put it again this year. There are still more entries than I would like to see in the Comptroller and Auditor-General's Report to this effect: "My inquiries on this subject have not yet been fully replied to"; and these replies seem to come in with quite considerable rapidity, once the Comptroller's Report is printed. Could it not be managed that they should come in before he prints, so that he should not have to record, as he does in paragraph 19, "I have not yet received a reply"; in paragraph 22, "My inquiries on this subject have not yet been fully replied to"; and in paragraph 25, "I have drawn the attention of the Admiralty to examples of these cases, but I have not yet received replies to all my inquiries"?—I think I explained in connection with an earlier paragraph that every endeavour is made to furnish the Comptroller and Auditor-General with information promptly and replies to all his inquiries, but certain of these inquiries are sent at a very late date, especially with regard to certain paragraphs in his Report. He has asked in some cases that replies might be given, in view of his approaching report, and it is not always possible to reply within that time. On the whole, I do not think the Comptroller and Auditor-General has very much reason to complain about outstanding queries.

1533. I know the difficulties under which you are working, Sir Alfred; it is only that I wondered whether it was your staff that was at fault or whether you could be more up to date?—I should hardly like to admit to the right honourable member that we are not up to date. We get hundreds of queries, and some of these must remain unanswered for some long time; there are good reasons why they are not answered, but every endeavour, I can assure the right honourable member, is made to furnish the Comptroller and Auditor-General with information as promptly as

NAVY APPROPRIATION ACCOUNT, 1916-17.

On Vote 11.—Miscellaneous Effective Services. Postal and Telegraphic Communications—*continued.*

Mr. *Leif Jones*—continued.

possible. I am as much interested in giving it as he is in receiving it.

1534. I know that, but the suggestion I made was that the appearance of the Report in print does seem to quicken processes at the Admiralty?—I hardly think that is so.

1535. That is what I wanted to know?—I think the Committee can hardly appreciate the amount of work which I have personally to put into this matter before the Comptroller and Auditor-General makes his report. I have myself, although I ought not to be required to do so, to go into the matter very closely, so as to see that he is furnished with all the information that he should have as far as possible.

1536. You lead me on. Why ought you not to be required to do so?—Because it ought to be done automatically; but with the staff that I have to carry on my work it is impossible to expect that, under existing circumstances, things will be done promptly in all cases.

1537. Then it is quite true that you have had a great deal of work which normally, and if your staff were full, would be automatically done for you?—That is so. Even in peace time there is a difficulty about staff; my staff in peace time was insufficient.

1538. If it were peace time, I should be inclined to pursue this very far, because the one staff which I think ought always to be sufficient in the office is the financial staff?—I quite agree with the right honourable member, and I shall be very much obliged for his support.

1539. You will get it, too.

Chairman.

1540. On that I was going to ask you later, but it fits in rather now. Do you feel your authority over your sub-accounting officers is sufficiently strong?—Yes; I have no reason to complain on that score. The matter, I think, was put before this Committee some few years ago, and was gone into thoroughly.

1541. And it is as strong as you are satisfied to have it?—Yes; I have no complaint to make.

ON VOTE 14.

BALANCES IRRECOVERABLE.

Chairman.

1542. (To Sir *Alfred Eyles.*) With reference to paragraph 24, Sir Alfred, I think you have got a confidential report to give us, have you not, to-day?—I sent down some copies.

1543. It is proposed to consider it to-day, and I think this question comes more clearly upon that because that has got the Treasury letters, has it not?—I sent down to the Clerk to the Committee copies of the letter from the Treasury and the Admiralty reply, and I thought perhaps it would save the time of the Committee if they read those letters through. I was hoping they would have had an opportunity of doing so before the meeting to-day.

1544. We have not seen them before (copies of the correspondence were handed to the members of the Committee). You do not mean to put those letters in, I suppose, because they deal with names?—I hardly think they should be published, and that was not my intention. It was merely that they should be read by members of the Committee. I had in mind the fact that it is somewhat difficult to read letters sitting at this table, and I thought it would be convenient to the Committee to have them beforehand.

1545. I think the better course would be that the Committee should read these letters, and that we should deal with the matter in our report. I do not think we want any evidence from you upon the letters?—I think not. There is one letter which is omitted, and if the Committee are going to postpone the paragraph it may be convenient to them that I should send in the other letter, which is the first letter the Admiralty wrote

25 *April* 1918.] Sir S. OLIVIER, K.C.M.G., C.B., Mr. G. BARSTOW, C.B., Sir A. EYLES, K.C.B., and Mr. T. SIMS, C.B. [*Continued.*

NAVY APPROPRIATION ACCOUNT, 1916-17.

On Vote 14.—Balances Irrecoverable—*continued.*

Chairman—continued.

wrote to the Treasury upon the subject. Then the Committee will have the Admiralty letter to the Treasury, the Treasury reply, and the Admiralty rejoinder.

1546. Thank you. I think we had better have that, and if we want further information we can ask for it.

DELAY IN CLEARING ACCOUNTS.

Chairman.

1547. (To Sir *Sydney Olivier.*) As to paragraph 25, Sir Sydney, have any additional answers come in yet?—We have now received replies practically to all of them.

1548. Satisfactory replies?—They do not dispose of the outstanding matters, but they give the reasons why they have not been disposed of. (Sir *Alfred Eyles.*) I think I may say that they do show that substantial progress has been made with the clearing of outstanding accounts.

1549. As to the total cost statement on page 18, I want to ask you the old question, Sir Alfred, as to whether you think you could better control the amount of stationery used in your office if you had to pay for it off your own vote?—My opinion has never varied that I do not think it would be an economical arrangement for the Admiralty to pay for its own stationery.

NAVY APPROPRIATION ACCOUNT, 1916-17.

On Vote 14.—Delay in Clearing Accounts—*continued.*

Sir *Charles Henry.*

1550. With regard to the Post Office you do refund the Post Office a large proportion of your utilisation of their services, do you not, the Post and Telegraph Office?—No, there is no repayment.

Sir *Henry Craik.*] I am familiar with it; there is only a charge on the Post Office Accounts in respect of each office; there is no actual passing of money.

Sir *Charles Henry.*

1551. There is for telegraphs, is there not; are you not charged for telegraphs?—No, there is no charge for Inland telegrams.

1552. But for foreign telegrams?—For foreign telegrams there is.

1553. And for foreign postage?—Yes. This statement on page 18 of the Comptroller and Auditor-General's Report, as the Committee will observe, contains charges relating to other offices than the Navy. It is a very large figure, and the Comptroller and Auditor-General explains that.

Chairman.] I was not commenting on the amount.

Sir *Charles Henry.*

1554. It does not include stationery supplied to your ships, does it?—Yes.

STORE EXPENSE AND MANUFACTURING ACCOUNTS.

Chairman.

1555. (To Sir *Alfred Eyles.*) With regard to paragraph 2 of the Report of the Comptroller and Auditor-General to the Store Accounts on page 21, your shortness of Staff and the pressure of work is your reason for not having had time to examine these accounts?—That is the general explanation.

Chairman—continued.

Mr. G. H. ASHDOWN, called in; and Examined.

Chairman.

1556. (To Mr. *Ashdown.*) The first question I have to put to you Mr. Ashdown is on paragraph 1 of the report on the Store Accounts, which states that none of the Equipment Accounts for Naval Air Stations have yet been rendered; could you not get them?—It is not my responsibility, as a matter of fact the Equipment Accounts are kept by the Director of Air Services, and not by the Director of Naval Stores.

1557. And he has gone over to the Air Board?—Yes, I have been trying to get them for the information of the Committee, but so far I have not succeeded in getting them from him, or to get any information that would be satisfactory to the Committee.

1558. (To Sir *Sydney. Olivier.*) With reference to paragraph 3, Sir Sydney, have you got answers to your questions about the Birkenhead and Derby Depôts?—No, we have not.

1559. Can you make that reply now?—(Mr. *Ashdown.*) The accounts are with the Auditors at the present time.

1560. Yes, the accounts are, but some information has been asked for. The paragraph says: "I have asked for information showing generally the extent to which recoveries in respect of these issues have taken place." Can you answer that?—That would be a question for the Inspector of Dockyards Accounts to answer. That would be the value portion as affecting repayments.

1561. Do you know anything about that, Sir Alfred?—(Sir *Alfred Eyles.*) I am afraid not.

1562. (To Sir *Sydney Olivier.*) In paragraph 5 you say: "My inquiries with regard to the exceptions named have not yet been replied to." Have they been partly replied to?—I have now received a reply from the Ministry of Shipping dealing with the point.

1563. You have got a reply and you are satisfied with it?—We got it two days ago. The reply from the Minister of Shipping is that, "Consequent on the war pressure it was not possible to hold stocktakings ordinary or test of Army transport stores at home yards during 1916-17. As regards foreign yards reports of 1916-17 stock-takings were received from Alexandria, Bermuda, Gibraltar, Hong Kong and Jamaica. Stock-takings were held during the latter half of 1917 at the following home yards and ports: Avonmouth, Devonport, Liverpool, Royal Clarence Yard, Royal Victoria Yard, Royal William Yard and Thames (West India Docks)"; so that as regards 1917 they are taking stock.

DOCKYARD EXPENSE AND OTHER MANUFACTURING ACCOUNTS.

Chairman.

1564. (To Sir *Alfred Eyles.*) Can you, Sir Alfred or Mr. Ashdown, tell us anything about what is referred to in paragraphs 8 and 9 of the report?—(Mr. *Ashdown.*) That, again, is for the Inspector of Dockyard Accounts, being a manufacturing account and not a quantity account.

Chairman—continued.

1565. Is Mr. Ward here? Perhaps he can tell us that?

Mr. F. WARD, called in; and Examined.

Chairman.

1566. (To Mr. *Ward.*) Can you tell us, Mr. Ward, if your endeavours to resume stocktaking have been successful?—Yes, they have been taking since then test stocktakings, and they are going on now.

1567. Right away since March, 1915?—They did not commence, I think, until the beginning of 1917 or the end of 1916.

Chairman—continued.

1568. And they could not go back at all?—The Superintendent was so pressed with the increase of work there that he said it was most difficult, because he had to increase the output of torpedoes enormously.

(The Witnesses withdrew.)

Thursday, 2nd May 1918.

MEMBERS PRESENT:

Mr. Baldwin.
Mr. Blair.
Sir Henry Craik.
Mr. Haslam.
Sir Charles Henry.
Mr. Higham.
Colonel Sir Herbert Jessel.
Mr. Leif Jones.
Mr. Jowett.
Sir Robert Williams.
Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., MR. ROLAND WILKINS, C.B., called in; and Examined.

CIVIL SERVICE APPROPRIATION ACCOUNTS, 1916-17.

CLASS I.

ON VOTE 14.

RATES ON GOVERNMENT PROPERTY.

Sir MALCOLM RAMSAY, K.C.B., called in; and Examined.

Chairman.

1569. (To Sir *Malcolm Ramsay.*) There is a considerable increase in Sub-head C on page 70, "Rates and Contributions in Lieu of Rates, England." Is that in consequence of any general rise in rates throughout England?—No. The poundage in England has generally decreased. This excess is due to the rates on premises occupied in connection with the war.

1571. Where do we get the rates of all those new factories which have been built over the whole place?—They are included in this vote, and account for the most part of the excess met from the Vote of Credit.

CLASS II.

ON VOTE 2A.

WAR CABINET.

No questions.

ON VOTE 3.

TREASURY AND SUBORDINATE DEPARTMENTS.

Mr. *Leif Jones.*

1572. (To Sir *Malcolm Ramsay.*) I see there is a slight increase in the Salaries, Wages and Allowances under the Treasury?—Sub-head A—yes.

1573. Is that due to an increased staff?—Yes, mainly.

1574. But your staff has increased very little, has it not?—Are you not labouring under a shortage of staff?—It has increased a good deal since this account; it had not increased very much at that time, but, of course, some of the staff of the Treasury, which has been specially engaged for the war, is under Sub-head C—some of the temporary people.

1575. Special inquiries?—Yes

1576. I notice you have charged on the next page £5,000 against the Vote of Credit. What besides those special inquiries is there due to the War at the Treasury?—The Right Honourable Member asks the details making up that £5,000?

1577. Yes. I see that it is in a Vote really?—It is in the Vote.

1578. "Sub-head A, £3,300 Salaries, Wages and Allowances": that is rather puzzling?—All that we can earmark definitely as attributable to the war. There was one salary of £700 to a Cambridge Fellow who has been employed at the Treasury; there is a salary of £320 to another gentleman who was then temporarily employed; £220 is the salary of a substitute; £240 was spent on temporary clerks which the Railway Clearing House lent to us; then there was for temporary and subordinate clerical staff about £1,230; overtime came to £180; there were some small gratuities and allowances which came to £230, and war bonus £180. That roughly makes up the £3,300, all of which we can positively identify as arising out of the war.

1579. I suppose in some sense you can. I should

Mr. *Leif Jones*—continued.

have thought really that any accession of staff the Treasury had got was not really due to the state of war but that probably your staff would have grown in any case?—Yes, it would have grown, and, as a matter of fact, we did provide as normal some small increase.

1580. I will not pursue the matter.

Mr. *Higham.*

1581. Turning to page 91, I refer to the fifth paragraph under the heading "Extra Remuneration." "From this Vote a salary of £777 15s. 7d. was paid to the Chairman of the Committee on Production, who was also in receipt of a civil superannuation allowance of £1,555 11s. 1d." Looking to the odd shillings and pence I would like to ask, do those items cover a whole year or only part?—It is a full year.

1582. How is the salary fixed?—He was a retired official, and he got the difference between his pension and his full pay when he resumed work.

1583. What age was he?—Over 60 or 65, I cannot tell you which, I am afraid.

1584. It must have been overtime or short time, or something else. I do not know what his qualifications were for service on the Committee of Production, being a retired Civil Servant?—It was, as a matter of fact, Sir David Harrell, who was Under-Secretary for Ireland. (Sir *Henry Gibson.*) The title of the Committee has possibly misled the honourable Member. The Committee adjudicates on questions of increase of wages.

1585. I asked my first question because I was wondering why the salary attached to the post was stated in odd sums, and it looked as if it was part of the year?—(Sir *Malcolm Ramsay.*) The odd amounts add up together to 6s. 8d. When he was in Government service his salary, owing to some curious circumstances, did amount to a broken sum ending in 6s. 8d., and therefore as his pension was £1,555 11s. 1d., he got 15s. 7d., plus £777, to make up the full effective pay when he was employed on this special task.

1586. Is this Committee connected with the Munitions Department?—It was appointed under the Munitions of War Acts to determine questions connected with rates of wages, and so forth, all over the country.

ON VOTE 27.

SECRET SERVICE.

Mr. *Leif Jones.*

1587. I would like to ask a question arising out of the use of the Vote of Credit. Why was this sudden reversion to the old and correct practice of Supplementary Estimate when you were dealing with expenditure, which I should have thought was essentially arising out of the state of war?—It is not a reversion in the sense that we have changed our practice during the war. We have done this systematically with the Secret Service Vote all through the war, and the reason was

Mr. *Leif Jones*—continued.

was that the Vote for Secret Service is granted by Parliament on the distinct understanding that the expenditure will not be vouched in detail to the Comptroller and Auditor-General. On the other hand, the Vote of Credit is voted on the understanding that it will be vouched in the ordinary way. We thought it was improper to take part of the money voted under the head of the Vote of Credit on the understanding of a detailed audit, and to appropriate it to expenditure for which detailed vouchers would not be submitted to the Comptroller and Auditor-General, and therefore we submitted supplementaries to get sanction for the principle that this amount should be covered by the understanding applicable to Secret Service.

CLASS III.

ON VOTE 2.

MISCELLANEOUS LEGAL EXPENSES.

No questions.

CLASS IV.

ON VOTE 7.

SCIENTIFIC INVESTIGATION, ETC.

Chairman.

1588. (To Sir *Malcolm Ramsay.*) Referring to the entries under Observatories, etc., on page 262, what are the receipts for Eskdale, for instance?—As regards £1,000, that is part of the Grant in Aid of £23,400 provided under Sub-head A of this Vote.

1589. The Royal Society?—Yes; that includes a special item of £1,000 for the purposes of Eskdale, and it is paid over by the Royal Society to the Meteorological Committee, who administer Eskdale and other observatories. The difference, £21 2s. 7d., is a small endowment—a small Trust Fund.

1590. They do not test work there at all, do they, of chronometers and so forth; they do not do work for people outside?—At some of these observatories they do testing; I am not personally responsible for this account, and I cannot answer in detail.

1591. They do at Kew, I know?—Yes, they do at Kew.

ON VOTE 8.

UNIVERSITIES AND COLLEGES, GREAT BRITAIN, AND INTERMEDIATE EDUCATION, WALES.

No Questions.

CLASS V.

ON VOTE 3.

TELEGRAPH SUBSIDIES.

No Questions.

ON VOTE 5.

TREASURY CHEST FUND.

Mr. *Leif Jones.*

1592. (To Sir *Malcolm Ramsay.*) I again raise the question, Sir Malcolm, which I raised before on the 4s. 4d. and the 11s.; have you reconsidered that point?—Yes.

1593. Why did you not take the £4,674 15s. 8d. so that you avoid "Surplus to be surrendered 4s. 4d.," and you avoid the note "The surplus of 11s. shown on the account of the Vote, 'Treasury Chest Fund,' for the year ended 31st March, 1916, has been surrendered"? Is not that worth saving?—We went into that when the Right Honourable Member raised it, and we came to the conclusion that you would cause more printing by asking Parliament to vote the 15s. 8d. than by omitting it, because the 15s. 8d. would appear in all the votes and resolutions; it would appear in the Reports and in all the estimates printed, and probably in the long run it would cost a little more than the present practice of voting of a round sum and surrendering a broken sum. All the Resolutions in Committee and the Appropriation Accounts would have the broken amount.

Mr. *Leif Jones*—continued.

1594. It is in a good many places now, but you are in a better position to compare them than I am if you have really looked into it?—We have discussed it.

CLASS VI.

ON VOTE 2.

MISCELLANEOUS EXPENSES.

Mr. *Higham.*

1595. (To Sir *Malcolm Ramsay.*) Referring to Sub-head C on page 310, I see, although the Tower was closed during the whole year, that the expenses are greater than the grant. Surely you did not require the whole of the police in attendance, for instance?—I think the Honourable Member is under a misapprehension. The Tower was not closed the whole year. We collected £1,195 16s. in admission fees from the public.

1596. It cannot have been closed in that case; I was under that impression?—No.

ON VOTE 4.

TEMPORARY COMMISSIONS.

No Questions.

ON VOTE 5.

REPAYMENTS TO THE LOCAL LOANS FUND.

No Questions.

ON VOTE 7.

STATUTORY COMMITTEE OF THE ROYAL PATRIOTIC FUNDS CORPORATION.

Chairman.

1597. (To Sir *Henry Gibson.*) I expect, Sir Henry, that you want to say something more about the matter mentioned in your Report on page 319?—I understood this vote was to be postponed. I gather that the position is that a new form of accounts is being drawn up which is not yet completed, and I understood that it would be brought up at a later stage. Sir Cyril Jackson is really the officer responsible. (Mr. *Wilkins.*) It would suit the Treasury if it were taken with the Army and Navy Votes or the Vote of the Ministry of Pensions. Mr. Barstow, I think, will be prepared to answer for that. (Sir *Malcolm Ramsay.*) I only account for the Chairman's salary, a single item.

ON VOTE 8.

REPAYMENTS TO THE CIVIL CONTINGENCIES FUND.

No Questions.

ON VOTE 9.

HOSPITALS (SPECIAL GRANTS).

Chairman.

1598. (To Sir *Malcolm Ramsay.*) This grant was not used apparently at all?—No; the arrangements were not made in time for any payments to be made.

1599. Was it taken again the following year?—Yes, it is a regular provision; it is now provided on the votes for the three Local Government Boards.

ON VOTE 10.

GOVERNMENT HOSPITALITY.

No Questions.

CLASS VII.

ON VOTE 9.

TREATMENT OF TUBERCULOSIS (SPECIAL GRANTS).

No Questions.

CIVIL CONTINGENCIES FUND, 1916-17.

Chairman.

1600. (To Sir *Malcolm Ramsay.*) Turning to pages 2 and 3 of the White Paper, Sir Malcolm, there is £2,000 paid in advance to the vote for Government hospitality. I thought that £25,000 was put into an account by itself?—We ran short during the year and we advanced temporarily £2,000 to keep the Government Hospitality Fund going, and repaid it out of the Vote for Civil Contingencies.

Chairman—continued.

1601. That means that the £25,000 was not enough for that particular year?—(Sir *Henry Gibson.*) No. The £25,000 had not been voted at the time that this money was required; the vote of £25,000 was taken later, and in the meantime the £2,000 was temporarily advanced from Civil contingencies.

CONSOLIDATED FUND.

Mr. *Higham.*

1602. (To Sir *Malcolm Ramsay.*) There is one point on the first page of the Report on page 5 of the White Paper, Sir Malcolm. I understand there has been a review of the terms between the Bank of England and the Treasury. The review was made in what we would now call the early days of the war. Is it proposed still further to review it under present conditions?—

Mr. *Higham*—continued.

This matter is being discussed by the Select Committee on National Expenditure. We gave evidence to the Committee last October, and certain proposals are now under consideration as regards a further revision of the payments made to the bank for managing the debt.

DEVELOPMENT FUND.

Chairman.

1603. (To Sir *Henry Gibson.*) With regard to "Advances to other bodies," dealt with in paragraph 2 of your Report on page 8 of the White Paper, Sir Henry, did you have any difficulty in finding that the conditions laid down by the Development Commissioners had been complied with?—No.

1604. You found in every case they had been complied with?—Yes.

Mr. *Leif Jones.*

1605. Dealing with the item at the top of page 6, British Flax and Hemp Growers' Society, Limited, what is the total estimate of the expenditure by the Commissioners on that, do you know?—(Sir *Malcolm Ramsay.*) I am afraid I do not know off hand, unless it is in the Report. In the Report of the Development Commissioners for the same year, which is not before the Committee, there are further advances recommended for hemp, but I am afraid we have not got the complete estimate here.

1606. There is a considerable sum being spent, unless I am mistaken?—Yes. In connection with the British Flax and Hemp Growers' Society, for instance, in the year under review £4,560 roughly was recommended to meet the expenses of the society for six months to the 30th September, 1916, and a further £6,275 for the year to September, 1917, and the general object of the society is to ascertain whether flax may be grown in this country on commercial conditions with profit to the growers.

Mr. *Leif Jones*—continued.

1607. Yes, but they determined to make an attempt on a pretty large scale?—That is so.

1608. Do you think you could find out for me what is the amount that has been spent and the total estimate of expenditure on this experiment?—Certainly; I will take a note of it.

Chairman.

1609. Sir Malcolm, do you check in any way the Department of Agriculture in Ireland as to the purchase of land for afforestation, or do you take their figures? That is the next item on page 6. They have had £19,000 I see?—All those advances to departments are, of course, included in the appropriation accounts of the various departments, and they are examined by the Comptroller and Auditor General.

Mr. *Higham.*

1610. Are they all expected to be repaid?—No.

1611. Take the first item which has been referred to already, the British Flax and Hemp Growers' Society?—No; that is a free grant.

1612. It is outstanding £1,500, and to carry interest at 4 per cent.?—I am afraid we are looking at different pages. I was referring to the item on page 3.

1613. What about the item on page 6?—That is a loan. Under the Act you either make advances by way of free grant or by loan. This Table V. is outstanding loans.

TREASURY CHEST FUND, 1916-17.

Mr. *Leif Jones.*

1614. (To Sir *Malcolm Ramsay.*) On the outer page of the White Paper, Sir Malcolm, there is a point which puzzled me for some time. This Treasury Chest Fund is presented pursuant to an Act of Parliament. The Civil Contingencies Fund is returned to an Order of the House of Commons?—Yes.

1615. How are the things divided? Are there a certain number which are under the definite instructions of an Act of Parliament?—The Treasury Chest Fund is all regulated by Statute. The Civil Contingencies Fund is not.

1616. How is the thing divided in the expenditure—these White Papers and so on? Are most of them under Acts of Parliament?—Certain Acts of Parliament direct certain returns; in all those cases returns are made under the Act which directs them, but in other cases returns can be called for specially by the House, or they can be moved for by the Departments concerned if they wish to present information to Parliament, which they are not obliged to give by Statute.

1617. Is that an historical difference? Is it a question of the date when the Fund was set up?—No; it

Mr. *Leif Jones*—continued.

depends to my mind rather on the class of expenditure. Parliament under certain Statutes definitely requires certain returns, but there may be other information which it may be discovered it is desirable that Parliament should have at a later date, and the machinery of Order provides for presenting those returns.

1618. The Civil Contingencies' Fund and the Treasury Chest Fund, from the point of view of Parliament and the information to be given to it, would seem to be on an exactly similar footing?—So they are. I quite agree as regards the information, but it so happens that the Treasury Chest Fund was regulated by Act, and the Act said that there must be an account presented to Parliament, whereas the Civil Contingencies' Fund is not regulated by Statute, and therefore there is no Act under which we can present this return.

Chairman.

1619. The return may be dropped any year without anybody being any the wiser?—I do not know; I think a good many people would know. There is no Statutory obligation to present it.

Mr. *Leif Jones.*

1620. It is by grace of the Treasury. Supposing the Financial Secretary forgot to make the return?—I think the right hon. member would move for it at once. (Sir *Henry Gibson.*) I think I should feel bound to draw attention to the matter.

Chairman.

1621. (To Sir *Malcolm Ramsay.*) Have you any idea, Sir Malcolm, over a series of years, whether you have made more or lost more?—I am afraid in the long run we have lost a good deal. The last year there was a profit was in 1907-8, when there was £29,000 profit, and before that you have got to go back to the year 1893-94, when we made a profit of £9,000. In the other intervening years we made a loss.

TREASURY MINUTE.

Chairman.

1625. (To Sir *Malcolm Ramsay.*) Have you anything further to add on paragraph 1 of the Treasury Minute, Sir Malcolm?—There is one point which occurs to me which was not brought out in this minute, and which, I think, is of considerable importance, and that is that if the practice were adopted of providing for all the war services in the ordinary votes of Parliament we should have very great and, I believe, insuperable difficulties in financing these votes at certain times of the year, because we have no means of doing it beyond the Civil Contingencies Fund, which is £300,000. That is not alluded to in the Minute. I think that is all I have got to add.

Mr. *Leif Jones.*

1626. I want to ask one or two questions. In the third paragraph, referring to paragraph 1, you say: "If the Vote of Credit is to be available to meet any deficiency which may arise upon the specific votes, the utility of the specific votes as machinery for control of expenditure disappears." I do not appreciate that. Why more than at present, when you actually pay out of the Vote of Credit anything which may be due to the war?—What we feel very strongly is that a normal Vote of Parliament is an effective means of controlling expenditure, and under the present system we have provided for a normal charge, which I can define afterwards if wished, and let the balance of all expenditure, so far as identified, be charged out of the Vote of Credit. You have thus the total provision for one Department, which we will call A, which is made up of B, plus C.

1627. That is the expenditure now?—The total expenditure which you have in these Appropriation Accounts is A, which is analysed up into B and C. If you were to present a total estimate for A alone you would at once, in our view, destroy the distinction between peace expenditure, which we know a great deal about, and war expenditure, and in our view you would have to provide a much bigger total, because every Department would then be in a watertight compartment, and would need a much larger margin over the whole year, and you would give the Department uncontrolled power of spending the whole amount which is provided. Under the present system we ask Parliament to vote B. If they find their normal peace expenditure is larger than B, they have to come to Parliament with a Supplementary Estimate, and if they find they have war expenditure they have to come to the Treasury for a grant out of the Vote of Credit. Therefore, I think under this system you do preserve control more than if you had one Vote, say, for the Stationery Office, which is a very good example, of five millions. No one would control the expenditure inside that five millions except the Comptroller and Auditor General, who would audit it, but there would be no attempt to keep the Department inside its ordinary peace services, and when the war is at an end we should have a very great deal of difficulty, in our judgment, in getting the estimates back on to a normal peace footing. That has been one reason which has weighed very strongly with us in allowing the present practice. As they are, I do

Mr. *Leif Jones.*

1622. Referring to page 4, what has Hong Kong contributed towards the cost of the war? You record it as having contributed 1s. 5d. in the year under review?—Hong-Kong has contributed, speaking from memory, about £1,000,000. There was an odd 1s. 5d. out of sums which had been paid in a previous year and had not been remitted.

1623. It seems a little hard upon Hong-Kong that your accounts should have 1s. 5d. under that heading?—Hong-Kong has had a minute presented to Parliament which shows what they have contributed.

Sir *Henry Craik.*

1624. So that their *amour propre* is preserved?—Yes.

Mr. *Leif Jones*—continued.

not say that the estimates are arranged on an altogether logical basis, and I think they are open to many criticisms; I quite admit that——

1628. You have perhaps seen the criticisms which were made?—I have seen the right honourable member's criticisms. I quite admit that, and we have recognised it all through, but we felt that by trying to limit the estimates presented to Parliament to what we call the normal services, we, at any rate, tie the Departments down to what they call, and we agree, as being their normal peace expenditure. This leaves us in a very much better position for after the war, and seems to us better than voting an inclusive sum under A to include the war and peace expenditure combined.

1629. Has it occurred to you that you might present your estimate still in the form of B, but to be arrived at by deducting C from A—that is, giving first of all obviously Estimate A—and that you should then say, "War expenditure we estimate to be C; the remainder B is the normal expenditure of the Department"? Now, if you gave us the estimate in that form, I suggest you would be giving more information to Parliament, and you would have all the control you speak of, because a Department would still only have the power of spending B out of the Votes of Parliament, and for the expenditure of C they would go to the Vote of Credit as at present. It seems to me that all your conditions would be met and we would have more information?—May I ask a question? The right honourable member suggests that the Vote should still be for B only?

1630. Yes?—But that on the estimate as presented there should be a calculation showing how it is arrived at?

1631. Yes?—Which is not embodied in the resolution, but which forms the basis for the Vote: "Total expenditure so much, of which war expenditure is estimated at so much, leaving a balance, B. provided for in this Vote?"

1632. Yes?—I think my answer to that is that all Departments, in my experience, are very reluctant, or certain Departments are most reluctant, to present to Parliament or to make estimates or statements of total expenditure which they cannot possibly foresee. That is the great difficulty about a number of these votes that we can make an estimate of B, and we have done it, but when it comes to say the total, even in the form of a note on the estimate, all the Accounting Officers I have spoken to have been most reluctant to do so. They say, "We cannot be asked to tell Parliament that we are going to spend five millions this year. It may be five millions or it may be ten millions"

1633. Would it surprise you to know that I have asked a good many accounting officers, and they have stated that there would not be any difficulty at all in giving an estimate for the war services throughout the year, presuming that nothing unexpected happens?—I did see the right honourable member's questions, and I was rather surprised. I think it was in the case of the Customs, and I looked up the figures which were presented to the Treasury by the Customs and Excise Department for 1916-17. At the time the estimate was

TREASURY MINUTE.

Mr. *Leif Jones*—continued.

framed we asked what the war expenditure was likely to be for which Parliament would have to provide. At the time the original estimate was framed we were told that £104,000 would be spent in 1915-16 on war services, and that a similar but somewhat increased charge would be made in 1916-17. A year later the same figure for the war charge for 1916-17 was put by the Customs (that was about three months before the close of the year) at £147,000, and, as this Account shows, it actually proved to be £225,000. I have no doubt that Accounting Officers can make a guess and make themselves safe, but I should be very much surprised if the result was not in practice to swell very much the totals which Parliament was asked to vote.

1634. Do you not feel that the great difficulty of what is happening is that as the war goes on your estimate for normal services is becoming more and more unreal?—Of course it is very difficult to say what the estimate of normal services is, but the fundamental difficulty to my mind is that the war has absolutely affected everything throughout. I think that every estimate we make or that anybody can make of normal services is open to criticism, but I do not see any better way of doing it.

1635. I cannot see why you do not, in the fifth year of the war, make an effort to let your Departments make the best estimate they can for the year of what they are actually going to spend; that is, give us A?—The right honourable gentleman has seen the Vote of Credit White Paper?

1636. I have just seen it; I received it this morning?—We have now presented a statement in which we attempt to show what the expenditure may be during this year, but I hope the Committee will absolve us if this estimate is entirely outside the mark in all the details.

1637. I think so?—What the Accounting Officers feel is this—certainly Sir Charles Harris does and Sir Alfred Eyles; they say: "We cannot tie ourselves to a figure, and therefore we not want to present a figure to Parliament which will prove to be very wide of the mark." Even for the purposes of that White Paper we had great difficulty in persuading Sir Charles Harris to name a figure for a certain item, and he only did it under all reserve; he said, "I am not to be tied to this; if you wish to make some forecast to Parliament, the best guess I can make is this, but I put it forward as such."

1638. But you have gone away from the Civil Service, on which we were mainly at the moment?—In the Civil Service the amounts are not so big.

1639. I think you will find—I do not know—that in the greater part of the Civil Service Estimates in the War Services paid for out of the Vote of Credit there is no more difference on the whole than you have been in the habit of having in the Civil Service Estimates. There are some items, no doubt, which are rather different?—There are some items. My own view is that items vary very much; some of the food items are quite incalculable; they depend very largely on future developments, partly on policy and partly on the harvests of this country, and you might at one time have to very greatly increase your stocks. There are some of the smaller Departments which you could make yourself safe over, but you would give a good deal of spending power which is unnecessary in the process of doing so; for instance, take the War Trade Department on the basis of this paper, which was prepared in December and January——

1640. What page is it?—Page 3 of the Vote of Credit White Paper, item 56, down towards the bottom on the right hand. They have given us a forecast of £93,000. They have been expanding very rapidly over the three years of the war, and if they wanted to present a Vote I have no doubt they would have quoted a higher figure than that. That is one of the Departments which to a certain extent has not expanded as rapidly as others.

1641. I think it is a great pity that you should continue to, what I can only call falsify, your Civil Service Estimates in your endeavour to keep near to what was going on before the war. They no longer represent facts at all; they are not what you are spending?—They represent quite fairly the present cost of carrying on normal peace machinery.

TREASURY MINUTE.

Mr. *Leif Jones*—continued.

1642. Does that allow for the increase of prices?—Yes.

1643. Do you increase the estimates according——?—Generally speaking, there has been an allowance for the increase of prices; for instance, at Broadmoor, where the cost of victualling has gone up, the normal provision for victualling is increased.

1644. That is purely due to the war?—Yes, there is a certain amount of war expenditure even in that normal figure.

1645. Do you say that you can compare the war years with the non-war years in any respect?—I should put it in this way—that any attempt to make a correct division between war and peace expenditure is quite impossible.

1646. Taking another point, you say you do not like to give this figure A for the estimates?—Yes.

1647. As a matter of fact the Departments are working to the figure A, and I put it to you that these estimates are furnished to the Treasury although they are not furnished to Parliament?—They have been for the purpose of this paper.

1648. If they are not, ought they not to be?—We have not thought that it would serve any useful purpose hitherto to ask all the smaller Departments to furnish detailed statements of what they are likely to require in addition to the provision on the Votes.

1649. You think that the failure of the smaller Departments to furnish these estimates—I will not say the failure, but the fact that they did not furnish them has not tended in any degree to the extravagance which you know has been prevalent?—I think not.

1650. I suggest to you that it has?—My feeling all through (and we have given it a great deal of thought) has been that if they were asked to present an estimate of what they were going to spend they would probably live up to it, whereas in these smaller Departments——

1651. Sir Malcolm, really I cannot allow that to pass?—I do not mean to suggest at all that the Departments are going to try to short circuit the House of Commons or the Treasury, but I do think that if they got a grant they will say, "Well, here it is," and unconsciously, as they have not got to make out a case for every item or periodically——

1652. I suggest to you that these new Departments especially would spend less if, instead of your giving them a free hand (and that is what I complain of), you had said to them that they should present estimates for a year or three months, or whatever the period may be before they spent the money, and that you should have insisted upon having explanations of all excess over these estimates?—As a matter of fact, all through the year they are submitting estimates of their proposals. I was speaking of a collective estimate.

1653. Then I understand your objection is that a year is too long a period for them to foresee, and therefore if they cannot furnish the figure A, A would be made up of A1, A2, A3 and A4 for different periods?—Yes. We have had periodical statements from various Departments saying, "We expect to need so much in so many months."

1654. A great many of the smaller Departments I have had before me in connection with the National Expenditure Committee, and I suggest to you that there are many of them in what I might call a normal state now; they have been going on for three or four years, and they are running very much like a Government Office; I think I could take this Paper and name them to you, but I do not know that I need specify them?—No.

1655. I think you would take it that unless you could do it for all you would not care to do it for any?—We have referred to that in our Minute. The Committee will remember that last year I said I thought some of the smaller ones could be estimated; I mentioned the War Trade Department and the Liquor Control Board—you could put an estimate upon them and they are the easiest, but hitherto, with all its imperfections, the classification between Vote of Credit expenditure and normal has given a rough means of identifying expenditure specifically attributable to the cost of the war, and if you are going to make full provision under separate estimates you obscure that comparison for what it is worth.

1656. I think you have put your finger exactly upon it

TREASURY MINUTE.

Mr. *Leif Jones*—continued.

it. I quite agree; I think you are safeguarding accuracy of estimates, but you are not safeguarding expenditure, which, I suggest, is the much more important thing?—I quite agree that the whole thing is control of expenditure—that is what we are all trying to secure.

1657. I suggest that the furnishing of A is the biggest control of expenditure you have, and that if you do not insist upon A at the beginning of the year you do not get your control of expenditure in these small departments. In some of the larger departments I quite admit that now we are getting into a position where there is internal control in the department, which is some substitute for what I am speaking of, but I do think the Treasury has let go the control which was given to them by the old form of the estimates, that from the outbreak of war you have abandoned the old system, and thereby, although you have got the form of your Appropriation Accounts and all the rest of it to fit beautifully into your form, you no longer have the control of the expenditure which you had before the war?—I admit frankly—and I think every Treasury representative has—that we are not controlling expenditure all over as we did before the war, but may I ask one question? In the region in which we are moving I do not think the Committee suggested that Naval and Military expenditure should be presented to the House in separate estimates. Then there is the large class of expenditure on commodities——

1658. In regard to the Army and Navy you must not assume that that is my view. I am not speaking for the Committee at all, but for myself as a Member of the Committee, and I should like to have in the Army and Navy as far as possible under certain Votes all the information of which I am speaking—I should like to have the figure A in all the Departments where it can be given without detriment to the Public service, and I think that is in about thirteen Votes out of the total?—I just want to interpolate that there are three classes really of expenditure: there is the Naval and Military, of which no Chancellor of the Exchequer has ever yet given any details to Parliament; there is the second class of new services which are called the 12B services, advances to Allies, and the expenditure on food purchase, and so forth; and then, thirdly, there is the class of expenditure which is supplementary to existing Votes. The class which is supplementary to existing Votes is, of course, an insignificant percentage of the whole. I got out the figures, and if I take the actual accounts for 1916-17 the total amount allocated from the Vote of Credit to help our ordinary Votes was £9,863,000—that is 0.5 per cent of the whole expenditure out of the Vote of Credit, and of that just over 0.1 per cent. represented all departments outside the Stationery Office and the Post Office.

1659. It pains me to hear from the Treasury £9,800,000 talked of as if it were a very small matter—only .5 per cent, of the expenditure out of the Vote of Credit. I admit it, but it is a considerable item of cash expenditure?—I did not mean to suggest anything else but it is small in proportion.

1660. This does contain in itself the ground of the criticisms I am trying to make of the Treasury that from the beginning they have said, "This war involves such heavy expenditure, such unexpected expenditure, that even where we can control it and look after it such a small region is left that it is not really worth our taking extra trouble over, and we will go on normally." I do not want to be unfair to the Treasury?—I am sure you do not; I quite recognise that.

1661. Is that right?—With great deference I do not quite accept the suggestion that we have abandoned control over these classes of expenditure, because every one of these departments has, before getting any allocation from the Vote of Credit, to justify the reasons which require it.

1662. On what ground did you really, after the first six months of the war, when you could not help yourselves, of course, justify the departure from estimates, which, I suggest, are the basis of wise expenditure? It is estimates before spending that I am pressing for?—The answer to that is, I think, that they have not been in a position to estimate in very many particulars.

TREASURY MINUTE.

Mr. *Leif Jones*—continued.

The great bulk of these items set out on page 3 of the Appropriation Account represent war bonus; a great deal of it is temporary staff which sprang up in the middle of the year, and the bulk of the expenditure has been under two heads—namely, stationery and printing and the Post Office. In their estimates they have told us periodically what they expected to spend, and they have always been under the mark, and their calculations have been quite falsified by events.

1663. Taking the Paper you have now issued on the Naval, Army and Air Services, warlike operations and other expenditure arising out of the war—the Vote of Credit—how far could you have presented such a Paper last year?—We could have presented something which I do not think would have been much worse. I do not think it would have been worth a great deal any more than I believe in this as an estimate.

1664. We shall have to wait a year before we can test what it is worth?—This represents the best we can do on the basis of existing facts. It does not make allowance for alterations of policy. I hope we shall not exceed the total, but I expect there will be great variations in the items.

1665. May I take it that you would not have presented this, except for the pressure of Parliament and perhaps of this Committee?—We have always felt we would much rather not, because we believe that the calculations are not worth a great deal; they are the best we can make, but we dislike very much putting before Parliament a calculation which we do not think is worth a great deal.

1666. If you have done your best at it, I am quite ready to take the responsibility for it?—I shall be very glad if it comes out right; I hope we will be within the total.

1667. We will meet again next year on this, Sir Malcolm.

Sir *Henry Craik.*

1668. I would like to ask a few questions. In ordinary normal times the control of the Treasury upon the expenditure of a particular department is exercised through approval of the estimates. The estimates are submitted to the Treasury, and can only be submitted to the House of Commons after receiving the approval of the Treasury; is not that so?—Yes.

1669. Therefore your hold in ordinary normal times over the expenditure of any department is in your criticism of the estimate which that department submits?—It begins before that; the estimate is merely the focus and concentration of a number of individual sections throughout the year.

1670. You are speaking of emergency times, but I am speaking of normal times?—I am speaking of normal times, if I may interrupt. In normal times the work of the Treasury throughout the year is to settle whether the Education Grants are to be 6s. 8d. or to go up to 7s. 6d. for a particular service, such as grants for Continuation Schools; and whether so many more clerks should be added to a particular department. When the estimate comes in all these things are brought together for the first time, and the officer who checks the estimate sees the demand for so many more clerks, and asks, "Have all these been sanctioned?" so that the estimate is simply adding up the individual items which have been sanctioned during the year.

1671. I quite agree with that, but surely in the ordinary normal case——?—In ordinary normal years there are not many increases during the course of the year.

1672. As an Accounting Officer for many years of a Department I did not have constantly to ask you for sanction to new expenditure in the course of the year. I submitted those at the end of the year, in December, for your approval in the form of an estimate?—Yes.

1673. It was then also that unforeseen expenditure which occurred during the course of the year for which we had to ask your special sanction so that it might go into a Supplementary Vote was brought up, and you were able to exercise control in that way also, but once the money was voted to the credit of a vote you had no

TREASURY MINUTE.

Sir *Henry Craik*—continued.

control thereafter over its expenditure?—No, except so far as the Comptroller and Auditor-General might query an item and report it; for instance, if you were to pay fifteen clerks, and the Treasury had sanctioned only five, the Comptroller and Auditor-General would report that at once.

1674. If I was doing something contrary to the law I should be pulled up, of course, but once you had voted an amount to my Department then the expenditure of that lay with the Department and not with you?—That is so.

1675. In the abnormal position of matters that has now arisen you do not think you can exercise a proper control through merely having an estimate; you wish to control these emergency payments which arise during the year, and which are made from the Vote of Credit?—All through the year the process goes on as before; those Departments which have payments to make get Treasury sanction for them.

1676. Certainly, but now in this time of emergency surely these unforeseen payments have become very much more frequent?—Yes.

1677. Also, they are provided or met from a new source, the Vote of Credit not having been focussed in the estimate?—That is so, and therefore the Department has not to get a definite sum allocated by Parliament.

1678. And, therefore, if they were focussed in the estimate and a certain necessarily liberal estimate was made, your control would be at an end?—Yes.

1679. As it is, under your arrangement which my Right Honourable Friend objects to, you are able to exercise a constantly recurring control as each emergency payment arises! is not that so?—Yes, we can, and we do to a large extent.

1680. To my mind that is the best justification for your carrying on the present practice?—That is what I have been trying to express to the Committee.

Sir *Charles Henry.*

1681. As a matter of fact a skeleton estimate from a Department, say the Admiralty, is presented to the Treasury before the end of March of the year when the estimates would come into force; they give you at the

TREASURY MINUTE.

Sir *Charles Henry*—continued.

Treasury some rough estimate, under the different votes, of the expenditure that is likely to be incurred during the year?—Yes.

1682. And on that the Chancellor of the Exchequer Budgets?—That is so.

1683. There is only one other point. In the Report of the National Expenditure Sub-Committee of the Admiralty (I daresay you saw the Report) we advise that it would not serve any useful purpose to put before Parliament the estimates of any special department, and that if you could not put the whole it would be better to leave it out altogether; that is your opinion?—That is my opinion, that a partial estimate serves no particular purpose, and if you have one item blank the whole might be blank.

1684. There would be no advantage in having Vote 12 or Vote 10 or Vote 11 and give estimates for that, if they could not give estimates for the other sub-heads at the same time?—I can conceive that there would be an advantage in having a vote for the establishment, because the number of staff might come under review, but qua total I think it would serve no purpose to leave certain of the heads blank at all.

Mr. *Leif Jones.*] If I may interpolate a sentence, I think my view comes to this, that we might as well get every particular we can in as detailed a form as we can, and I do not accept the view that because you cannot reach an accurate total therefore you should not have the detailed items wherever it is possible.

Sir *Charles Henry.*] We discussed the matter and we came to the conclusion that there would be no advantage in it.

Mr. *Leif Jones.*] I know your Committee did.

Colonel Sir *Herbert Jessel.*

1685. I only want to know what is the genesis of this particular Paper?—It is presented in fulfilment of the undertaking we gave in the Minute; if you will turn to the Treasury Minute on the last Report of the Public Accounts Committee, we gave an undertaking to present a Paper of this kind.

(*Sir Malcolm Ramsay withdrew.*)

GREENWICH HOSPITAL AND TRAVERS' FOUNDATION.

Mr. C. H. R. STANSFIELD called in; and Examined.

Chairman.

1686. (To Mr. *Stansfield.*) Referring to paragraph 2 of the report which is on page 8 of the White Paper, is the variation from the estimate more than usual?—No, I think not; on this occasion we got a better dividend than we anticipated from certain Indian railway investments.

1687. And the expenditure was a good deal less?—Yes.

1688. Is that quite a usual variation?—It is about the usual; as a matter of fact it would have been less than that if we could have got all our accounts in and paid before the end of the financial year, but it is difficult in these times especially.

1689. Referring to pages 4 and 5 of the Income Account, do you not keep rather a large balance in the hands of the Paymaster-General, £27,000? Is it necessary to keep such a large balance in hand? You began the year with a balance of £28,000 in the hands of the Paymaster-General and ended with £27,000. Is that not rather a large amount to keep in the hands of the Paymaster-General?—That arises from the fact that many payments come in just at the end of the financial year; a large proportion come in actually on the 31st of March, and it is impossible to deal with them in the financial year, and the remainder shows as a balance in that year.

1690. In fact your cheques outstanding would sweep away a good deal of the £28,000?—That is so.

Sir *Charles Henry.*

1691. You spend about £140,000 a year in the distribution of pensions?—Yes.

Sir *Charles Henry*—continued.

1692. Is there any reason why the whole of this account should not be dealt with now by the Ministry of Pensions? Is there likely to be any overlapping now as the Pension Ministry has been established to deal with pensions as a whole?—I think not the slightest likelihood.

1693. Before the Ministry of Pensions was established the Admiralty dealt with the whole of the Admiralty pensions?—Yes.

1694. But now the Ministry of Pensions deals with the Admiralty pensions except those of Greenwich Hospital?—The Admiralty when it dealt with its own pensions dealt with the sums allotted by Parliament for the purpose and on the rates approved by the Treasury. Greenwich Hospital, being the great naval charity, supplemented under regulations those flat rates allowed by the Government.

1695. Do you before allocating these pensions consult with the Ministry of Pensions?—We know all particulars.

1696. You do not allocate the pensions before you satisfy yourselves as to the amount of pension given through the Ministry of Pensions?—No, we know the particulars—in fact, we are bound to know, because there are limits to the rates of pension or the total amount of income, which are observed before we grant what we call special pensions. As to age pensions, the rate does not come in.

1697. Yours are really supplementary pensions?—Yes, supplementary to the Government rates.

(*Mr. Stansfield withdrew.*)

1698. (To-

GREENWICH HOSPITAL AND TRAVERS' FOUNDATION.

Chairman.

1698. (To Sir *Henry Gibson.*) I think, Sir Henry, you wish to raise some question as to the staffing of your department?—Yes, sir. You will remember that on the 13th March, 1917, arising out of the Military Service Act of 1916, I brought up before this Committee the question as to the demands on my staff and the difficulty in which I would be placed in carrying out my work if I had to release any further men for military service. As the result of the passing of the recent Act, naturally the National Service Department are taking steps with all departments to carry out certain action to withdraw more men to the colours. I think I sent you a copy of their letter of the 22nd April last, where they announced that all Civil servants under 23 were to have their exemption certificates withdrawn—that the Prime Minister had decided that all Civil servants who attained the age of 25 years on the 1st January last and who were placed in Grade 1 or Category A were to be released forthwith for military service, and, thirdly, that the Minister of National Service hoped that the Departments would make every effort to release all men in Grades 1 and 2 up to the age of 31. Following that letter there was another letter on the 29th April in which they state that in accordance with the decision of the War Cabinet the Minister proposed "to set up Military Service Committees to review the staff of military age employed in the various Departments of State. The committees will consist of representatives of the Departments concerned and the unofficial representatives of this Ministry"; by which I gather that it is intended to appoint some outside Committee to come and look into the work of my office, see how it is carried on, and what further staff I can release. I thought I should like to bring the matter before this Committee before I took any further action. My position is simply this: the normal pre-war expenditure which came under my audit in 1913-14 was £170,000,000; in 1916-17 in the accounts now before this Committee the total audited expenditure was £2,162,000,000; it is estimated for 1917-18 at £2,550,000,000, and for 1918-19 at £2,650,000,000. I may say that the estimated expenditure, which has increased in those years, affects my Department somewhat late because the accounts, of course, come in subsequently, and therefore at the present time I am still really suffering from a shortage of staff, and I have demands from my principal officers not only that none of my present trained staff can be spared, but that I ought to have a large increase over my existing numbers. With regard to the comparison of audited expenditure I would like to point out to the Committee that at the outbreak of the war the trained staff of my Department numbered 215. Twenty-nine trained examiners were mobilised; they had to go at the outbreak of war because they belonged to the Territorial Forces, and I have since released thirty-six for military service, including all A men up to 26 years of age. Some of the men I released before that were men as old as 30. The result of this action has been that as compared with a staff of 215 trained men before the war, taking into account that we work longer hours and have curtailed leave. I have now got for an expenditure which has increased tenfold the equivalent of a trained staff of 208 only. It has only been possible to carry on by dealing with a very light hand with the Civil Service normal expenditure and transferring the best of the staff on to the more difficult and complicated audit of the Army, Navy, Ministry of Munitions and other war services, and taking on a large number of temporary

GREENWICH HOSPITAL AND TRAVERS' FOUNDATION.

Chairman—continued.

clerks, 123 in all, 73 men and 50 women, who in most cases are only capable of doing the more routine work and can only be put on the audit of simpler accounts. I thought, in view of these letters from the National Service Department, that I had better review the position of my department and find out what demands were likely to come forward for increase of staff. I have not the exact numbers, but, roughly, my principal officers tell me we really want another from 30 to 40 men to deal with the still-growing audit expenditure of the Army, the Navy, the Ministry of Munitions, the Ministry of Pensions and other Departments. With regard to the Ministry of Food and the Food Production Department, we have practically got no accounts whatever from those Departments yet, and a very heavy expenditure has been incurred, and what I feel is that it is impossible for me, with such a small nucleus of trained staff, to spare any further men for military service. As a patriotic citizen, I should like everybody in my Department of fighting age to be on active service, but as Comptroller and Auditor-General I have to look at it from another point of view. If I were to give up the members of my staff up to 31 years it would mean a further drain of 24 of my very best examiners, the class that in my Department do the most valuable work; it is the man that actually examines the accounts who raises the points; the superior staff, of course, review and criticise, but I rely on keen and capable examiners to ferret out the points from the accounts. What I should like to represent, therefore, is that it is not only impossible for me to spare any of my men over 26, but I really ought to have a considerable increase of trained staff. I spoke to Sir John Bradbury about it, and now that we have got down to bed-rock as regards man power, the question arises whether there ought not to be some priority among Departments for audit purposes. There is the National Insurance Audit Department. I have talked to Mr. Boggis-Rolfe, the chief of that Department, about the matter. They do a large amount of very useful audit, but it appears to me that the Comptroller and Auditor-General's audit is more important than theirs, and that, in order to enable me to carry out my work satisfactorily, I might have a certain transfer of staff from his Department. I think Mr. Boggis-Rolfe would agree that some classes of his audit must be continued as at present, but there are certain directions in which he would be prepared to reduce his audit and transfer to me some of his men. But the same question will arise in his Department, because most of the staff he would release in order to transfer to me, if it were so decided, would be under military age.

1699. Would they also be under military age, Mr. Boggis-Rolfe?—(Mr. *Boggis-Rolfe.*) In many cases, because our staff was recruited very young.

1700. Sir Henry, directly you sent me that letter, which I got on Tuesday, I wrote to the Ministry of National Service, and I said that the Public Accounts Committee last year considered that your staff ought not to be reduced, and that if they took men from you they ought to be prepared to release to you men of over military age who were trained accountants. I have not yet got an answer?—(Sir *Henry Gibson.*) Mr. Chrystal, the Secretary to the National Service Department, is here, and is quite prepared to speak on the matter. I hope we may be able to come to some amicable arrangement.

Mr. G. W. CHRYSTAL, called in; and Examined.

Chairman.

1701. (To Mr. *Chrystal.*) Did you get my letter, Mr. Chrystal?—Yes, Sir. I had not answered because I was unable to consult the Minister until this morning, but I have now seen him, and I can make certain suggestions with regard to this Military Service Committee. (Sir *Henry Gibson.*) An outside Committee, composed, I understand, of Peers and Judges and so on, would not be very valuable in assessing my work or how I have got to do it and the staff I require. I

Chairman—continued.

should like to suggest that if any Committee has to go into the work of my Department it should be either the Public Accounts Committee or a Sub-Committee of this body. I do not think that an outside body could fairly and properly lay down what work I am to do, as I am responsible to Parliament alone.

1702. Is this Committee appointed or to be appointed?—(Mr. *Chrystal.*) What is proposed to be done is this: The Minister of National Service has invited

2 *May* 1918.] Sir H. GIBSON, K.C.B., Mr. WILKINS, C.B., and Mr. CHRYSTAL. [*Continued.*

Chairman—continued.

invited twenty or thirty distinguished persons, not altogether Peers or Judges, we hope to be assisted by a certain number of Members of the House of Commons as well. This body will be subdivided into smaller sub-panels, probably of two each, who will be assigned to different Departments, because we wish to start the inquiry simultaneously in as many Departments as possible, so that it may be completed soon, because if it is not done soon it will not be of very much use. If it was thought desirable, we should be quite willing, and should welcome this particular inquiry being held by a Committee, on which the Public Accounts Committee would, at any rate, be very largely represented.

1703. That, I think, would be highly desirable. At the same time, have you got in mind this point: that, in the opinion of this Committee, if anybody is taken away from the Comptroller and Auditor-General's staff he must be replaced by a man released from the Army, or someone else who is a trained man in this job. This is a work of national importance, and that is why I wrote to you, because you deal with the men released from the Army?—We do. I do not know how far that would be possible. We would be only too glad to carry out such an arrangement, if it were possible, but the number of men who can be found of a low category in the Army who can be released as substitutes is necessarily limited. We found that in connection with other Departments, where the demand for accountants is very very large.

Mr. *Leif Jones.*

1704. I was going to ask that question: Have you any hope whatever of being able to find accountants to replace young men?—I should not say there was any certainty of it.

1705. Do you even hope it? Are you familiar with the demands of the Admiralty at this moment for accountants?—Yes; and the Ministry of Munitions and the Ministry of Food; I am quite familiar with it. (Sir *Henry Gibson.*) The Ministry of Munitions are going so far as to get the military authorities to withdraw men who are certified as accountants to come back to their office. They are actually withdrawing men from military duty. (Mr. *Chrystal.*) In the Home Forces; we do not get them back from France now. (Sir *Henry Gibson.*) With regard to my Department, I have consistently abstained from competing with the Ministry of Munitions, the Admiralty or the War Office as regards the employment of chartered accountants in my office; I have always thought they would be far more valuable to those Departments, where they can do the work of costing, and so on. I have never asked to be supplied with chartered accountants, because I think it is of far more importance that they should be in the Departments where they can keep things straight and save money than that they should come in to conduct my audit, for which they are not so exceptionally fitted.

Chairman.

1706. You want trained clerks?—I want people trained in my office in my particular kind of work. What I really want is men who will dig into the accounts themselves, and for this work they are not of much use without actual experience of this kind of work.

Mr. *Blair.*

1707. How long would it take to train chartered accountants from the City who came under this new age limit to become absolutely competent in your office?—I do not think they would be of much use under six months to a year.

Sir *Charles Henry.*

1708. What men do you want, Sir Henry?—I want the men I have had to train up specially in my own office.

1709. You do not want substitutes?—I will accept substitutes if you can give me useful men. The most useful substitutes I can conceive (I have had a large batch before and they have turned out very valuable) are Mr. Boggis-Rolfe's staff, who have had to a certain extent similar experience in Government audit.

Chairman.

1710. But they still would be men who would come under this new Act?—I am afraid they would.

Sir *Henry Craik.*

1711. Have you a large number of retired officers of your Department who are still living?—Retired Civil Servants? Not a large number, and I think I may say I have mopped up every single retired officer worth taking.

1712. None who have offered their services have been refused?—Not one; in fact, I wrote personally to all on the retired list who were suitable inviting them to rejoin for duty, and nearly all most patriotically complied, though many were very advanced in years and one or two of them have since been unable to stand the strain. I only know two men that I could possibly employ, and they certainly never offered their services.

1713. I am very glad to hear it, because I know of Departments who have refused men?—I have got men from every source possible, including a few useful men retired from the Colonial and Indian Civil Services.

Mr. *Blair.*

1714. Have you formed any estimate in your Department, Mr. Chrystal, of how many chartered accountants come in under the new Military Service Act?—(Mr. *Chrystal.*) Not yet, as far as I know, but we expect there will be a considerable number.

1715. You have no idea?—I have no idea of the number.

Mr. *Leif Jones.*] This Committee was of opinion at the time the Comptroller and Auditor-General's staff was reduced that it was impossible to limit it still further, and that being so, I think I had better not sit on a Committee which is going to consider the point, because I shall ask for more men to be added to the Department.

Chairman.

1716. I suppose the Committee which are to be appointed will only report?—To the Ministry of National Service.

Mr. *Leif Jones.*

1717. I should like to go before their Committee when it is appointed to argue the point before them in favour of the retention of the men of Sir Henry Gibson's Department?—That might be done, might it not? We might appoint someone who represented outside interests to sit with yourself and have a detailed inquiry.

Mr. *McKinnon Wood.*

1718. (To Sir *Henry Gibson.*) Is almost anybody who has not been through this particular work very much use to you for a few months?—No; that is what I feel very strongly.

1719. How can anybody who comes in have, as it were, the nose to scent out the points?—That is exactly what I mean.

1720. And if a chartered accountant is no use *a fortiori* everybody else is of still less use.

(*The Witness withdrew.*)

Thursday, 9th May 1918.

MEMBERS PRESENT:

Mr. Arnold.	Mr. Higham.
Mr. Blair.	Colonel Sir Herbert Jessel.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Haslam.	Sir Robert Williams.
Sir Charles Henry.	Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. S. DANNREUTHER, C.B., Mr. G. F. GARNSEY, and Mr. A. WATSON called in; and Examined.

Chairman.

1721. (To Mr. *Dannreuther.*) We will take the Treasury Minute first. Referring to Paragraph 3, the Select Committee on National Expenditure have practically reported upon everything dealing with the formation of the Department?—They have, and there is a Committee going into the staff of the office at the present moment.

Sir *Charles Henry.*

1722. As to paragraph 53, I observe "Mr. Churchill notes the recommendation that contracts on the basis of net cost and percentage should be based upon a sliding scale"; is that actually being done?—That is so.

1723. That is to say that if you allow 10 per cent. profit to a contractor on a contract of £100,000, that percentage would be reduced if the contract went up to £200,000?—Yes, and not only so, but it has been decided that the sliding scale shall apply to the total of successive orders placed with the same contractor. The contractor may have one contract to do work, and may then have another contract placed with him, and it is then considered to be one contract, the two being put together, so that the percentage depends upon the total amount of work given to the contractor.

1724. A continuation of orders is classed as one contract?—Yes.

1725. So that he has actually to be satisfied with a reduced percentage?—Yes.

Mr. *Arnold.*

1726. Is that so in the case of all contracts?—I am referring to the contracts made by the Director of Factory Construction. I am not sure about the housing. I am informed that the housing contracts are done on schedule. I think those have nothing to do with the contracts made by the Director of Factory Construction.

Sir *Charles Henry.*

1727. When you say that the housing is done by schedule, do you mean on quantities?—Yes, the housing people have been able to get out ordinary contracts, and to fix those upon schedule rates, but the Director of Factory Construction has made most of his contracts on the basis of a certain percentage coming down if the contractor gets further contracts.

Mr. *Higham*

1728. Can we have that schedule of rates for the housing?—I do not know the particulars of it, but I will ask that it should be supplied.

1729. Do you mean that the commission or remuneration is paid for the supervision of contracts, or that you refer simply to the schedule of prices for the building itself?—There is no commission in the case of a housing contract.

1730. You are merely referring to the schedule of costs of building?—Quite so.

Sir *Charles Henry.*

1731. That is with reference to costing; is that being extensively developed throughout the whole of the Ministry?—Very much so, and I think it is in contemplation now to increase it still further in co-operation with the Admiralty and the War Office.

Sir *Charles Henry*—continued.

1732. Does each Department of the Ministry have its own costing department, or is it done centrally?—It is at present centralised under the Contracts Department.

1733. But there is no reason why it should not be done by each Department, is there?—No, I do not think there is. It depends on the organisation in the office. It may come about in time. But I think the present intention is to keep it centralised.

Mr. *Arnold.*

1734. Do you know how many chartered accountants have been got back from the Army to help in this costing work?—Mr. Garnsey will perhaps be able to answer that. (Mr. *Watson.*) As regards the number got back, I think there have been probably about twenty-five to thirty recently.

1735. What do you mean by recently?—During the last three months. (Mr. *Garnsey.*) We are making representations to the War Office to-day to get back men from the Army. We are giving them the names and regiments, showing exactly where they are, but, of course, we are only making applications in cases where it appears that the men would be better employed at the Ministry of Munitions rather than with the Army.

1736. How many chartered accountants have you got on the staff of the Ministry now altogether?—(Mr. *Dannreuther.*) 292. (Sir *Henry Gibson.*) That is only in the Finance Department.

1737. I want to know the whole of the chartered accountants on the staff?—(Mr. *Dannreuther.*) I must get the figures for you the next time. I do not think there are very many outside the finance group, which includes contracts. They are mostly on the audit side, factory audits and costs and contract costs, and a certain number in the higher posts in the Accounts Department.

1738. I want, first, to know how many chartered accountants there are, and, secondly, how many incorporated accountants there are on the whole staff of the Ministry?—I will give you the number next time.

Mr. *McKinnon Wood.*

1739. Can you tell us the number of the total staff of the Ministry?—I have got the figures here. The total headquarters staff on the 31st March, 1918, excluding messengers and cleaners, amounted to male 6,513, female 9,331; total, 15,844.

Chairman.

1740. Of whom 4,000 are in the Internal Audit Department?—Oh, dear, *no*; the whole of the Accounts Department, including internal audit, is about 2,600.

Mr. *McKinnon Wood.*

1741. Does the figure you have given include inspectors in the provinces, or are they additional?—Those are the headquarters people.

1742. Do you know the total staff, including inspectors in the provinces?—What sort of inspectors do you mean?

1743. The people paid by the Ministry of Munitions?—Paid directly or indirectly? If we took the whole of the Inspection Department you would get thousands and

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *McKinnon Wood*—continued.

and thousands of people. The Inspection Department has an enormous staff of inspectors, and including the subordinate staff I daresay there would be 60,000 or 70,000 people in the whole of the Inspection Department.

Sir *Henry Craik.*

1744. Confining it merely to the accounting inspectors, how many would there be?—The figure I gave includes the auditors; they are all attached to headquarters.

Mr. *Blair.*

1745. When you speak of headquarters, do you include the Explosives Department at Storey's Gate?—Yes, all the London offices.

1746. All their inspectors?—Yes.

Mr. *McKinnon Wood.*

1747. It is the London staff you speak of—the headquarters?—Yes.

1748. 15,844?—Yes, excluding messengers and cleaners, and there may be a couple of thousand of these people.

1749. You have all sorts of resident people in the munitions towns in the provinces who are under your direction?—In the area offices and so on.

1750. What I want to get at is: Is this the London staff alone?—So I understand.

1751. And the other goes into tens of thousands?—As to the staff when you think of the factories, the Store Departments, the Inspection Departments, and so on, it goes into enormous numbers.

1752. I do not mean that—if you have a factory run by you with 5,000 people in it, I do not mean you to include that number; I mean your official staff. If you have got an inspector who goes into a factory in order to inspect it, I do include him, but I do not include the workmen or foremen or managers.

Sir *Charles Henry.*

1753. Am I not right in saying that there are about 1,300 inspectors really employed by the headquarters staff in London?—I would not like to say that. (Mr. *Watson.*) Roughly that in the London areas, and there is an inspection staff in London and the provinces of something like 70,000, mainly attached to contractors' works.

Colonel Sir *Herbert Jessel.*

1754. What do you mean by 70,000 in the provinces: they are not all inspectors?—(Mr. *Dannreuther.*) Viewers and examiners.

1755. Nothing to do with the manufacture; they are simply your officials?—Passing the goods into the service.

1756. They are representatives of the Ministry?—Yes.

1757. Have you not some abroad in France now as well?—We have got a small staff in Paris.

Chairman.

1758. And some in America still?—Yes, some in America.

Colonel Sir *Herbert Jessel.*

1759. What is the Paris staff for?—There is an Aviation Branch, chiefly for buying from the French Government various types of aeronautical machines, and so on. There is a certain number of what you might call munitions contracts (*e.g.* fuses) which are placed in France and Switzerland through the Paris office. Sir Charles Ellis is the representative of the Ministry in Paris. There are also what are called Anglo-American Tank Commissioners in Paris.

1760. What is that?—There is a joint body under whose direction the making of tanks is carried out, part of the armament being supplied from America and part from England. There is a joint output for the benefit of England, France and America.

1761. Is that for the British Forces as well?—It is not absolutely decided; it will depend on the requirements generally. I think the Americans have the first call on the products. That is, in addition to the output at home.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Colonel Sir *Herbert Jessel*—continued.

Mr. *Higham.*

1762. Do your provincial inspectors work a certain number of hours per day or week?—There are the heads of the different departments, and they have their own inspectors to watch the work.

1763. Take a case like this: An inspector is living in a town and going to a works every day that is twenty miles away; he arrives there at about 11 o'clock in the morning and leaves about half-past three, having his lunch in the middle of the day. What check is there on work of that description?—Do you mean an inspector in the Inspection Department in an area doing his job? I do not see how anybody could inspect him. I suppose he has to report to headquarters as to what work he does. If you would like me to try to find out what sort of record is kept of the work done by the inspectors in the Inspection Department I will try to do so.

1764. I was told by the head of a small works in a Lancashire town that he had four inspectors coming there practically devoting the whole of their time to it, and he said that one youth of seventeen or eighteen years of age could do the work of the whole four. He described them as arriving between ten and eleven and going away before four; after they arrived they had a cup of tea in the morning, then they had their lunch and a cup of tea in the afternoon, before going away. I was also informed that there was one person devoting the whole of his time to inspecting the painting of the firm's name and address on the cases which were sent away, who received £4 a week for doing it, besides expenses.

Mr. *Haslam.*

1765. I have heard very much the same sort of criticism to the effect that in many cases inspectors would come one after the other for the same thing, and that there were very many more than were needed. Whether that is so or not, I do not know, but perhaps you could give us some information on the point?—I will try to get some.

1766. Are these inspectors whole-time inspectors in each case, taking the 70,000 you refer to?—I think so—whole time.

1767. Entirely in the pay of the Government?—Yes. Those include all the viewers and examiners—perhaps inspectors is the wrong term to use.

Sir *Henry Craik.*

1768. Do they not keep a diary of the hours of arrival, and so on?—There is a regular check kept on the wages sheets for all the viewers.

1769. Do they not have a diary, which they are obliged to sign, stating the hour of their arrival and when they leave, and are they not obliged to sign a book?—The inspectors going round in different areas supervise the viewers and the examiners.

1770. Yes?—I could not tell you; I will ask.

1771. Take the case of an inspector of schools. Supposing an inspector of schools goes to a school, he puts down the train by which he arrives, and he has to sign a book at the school, so that we can at any time find out when he arrived and when he left the school. He puts that in his diary and he is paid accordingly, and if we found that an inspector of schools was doing insufficient work he would be at once called up?—Do you mean that an inspector at the works of a contractor should sign a chit handed to him by the contractor to show that he turned up at a certain time and went at another time?

1772. No; he enters his name in the book of the school?—There would be no book at the contractor's factory for an inspector to enter his name in.

1773. Is he obliged to return a diary of his work?—I believe he does so.

1774. You are not sure?—I am not sure; I will ask the Controller of Inspection if you would like to know.

1775. To

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman.

1775. (To Mr. *Barstow.*) Have you got the statement for which you asked, Mr. Barstow?—No. (Mr. *Dannreuther.*) I have got it here ready for signature to be sent to the Treasury.

1776. Are you going to put that in?—It is a letter going to the Treasury, but I can give you the facts if you like. I can state them shortly.

1777. Will you please do so?—With regard to goods ordered before the 1st April, 1915, the number of contracts in which prices have not been fixed is *nil;* in respect of those ordered before the 1st April, 1916, the number is 9; in respect of those ordered before the 1st April, 1917, the number on the 31st January, when this letter was written, was 121, but this has since been reduced to 97, and the bulk of those are in respect of gun and howitzer equipments and parts awaiting cost examination. The number outstanding is not looked upon as large now, as we make about 60,000 contracts per annum.

Mr. *Leif Jones.*

1778. Are the amounts large in these cases?—I have not got the amounts, but the amounts would be large in connection with gun and howitzer equipments. It is particularly in the case of new types of guns and howitzers, Tanks and so on, where they have had to wait to get costing results before fixing prices.

1779. Take the nine cases before the 1st April, 1916, for the year 1915-16?—The cost examinations are completed and the prices are under examination. Very rapid progress has been made with regard to those. I have spoken to Sir John Mann several times about it.

1780. You are endeavouring to get those settled soon?—Yes; considerable progress has been made.

Sir *Charles Henry.*

1781. The Treasury state in paragraph 56 that there is a very fruitful source of wasteful expenditure through the lack of co-operation between different branches of the Ministry. To what do you apply that term of "wasteful expenditure," Mr. Barstow? Is it staff, or is it in overlapping in contracting, or is it in the overlapping in the supply of goods or the manufacture of goods?—(Mr. *Barstow.*) I think there is certainly wasteful expenditure on the staff.

1782. Is staff the gravamen of your opinion that there is wasteful expenditure?—This paragraph of the letter was dealing with paragraph 56 of the Public Accounts Committee Report on the accounts of last year, and I am not quite sure that I have got it. (Mr. *Dannreuther.*) It referred to the lack of cohesion in the matter of placing contracts. (Mr. *Barstow.*) That paragraph did relate to the want of co-ordination in the placing of contracts which has led to the waste of public money.

Mr. *McKinnon Wood.*

1783. May I ask a question about that? Does that mean (I do not know of my own knowledge, but I have been told) that a contractor has to deal with three departments—Contracts, Supply and Finance—and each of those three departments is very imperfectly acquainted with what is going on in the other two, so that, as one contractor put it, "the only person who knows the job as a whole is the contractor." The different departments in the Ministry really do not communicate to one another what they each are doing with regard to the job?—There are, moreover, different supply departments who may be dealing with the same contractor, and it was that rather that the Treasury had in mind.

1784. Did you find that the different departments were watertight departments, and inadequately acquainted with what the others were doing?—The position is really that the Public Accounts Committee have found that there is a lack of cohesion, and on that report the Treasury have drawn the Minister's special attention to it. (Mr. *Dannreuther.*) As you know, the

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *McKinnon Wood*—continued.

Select Committee has been very much into the question of organisation, and they have made various recommendations.

1785. I am glad to hear it?—And those are being carried out. Steps are in contemplation for still better co-ordination between contracts and supply at the moment.

1786. If one man is on one side supplying under a contract and there are three people on the other side, I back the one man to win on the whole. As one contractor explained to me, "Sometimes they have the better of us, but not a second time"?—On the general question of co-ordination I think there is no doubt that there has been very considerable improvement—I mean since the formation of the Council Committees and the Sub-Council Committees, which are continually meeting in the office; and the Financial Secretary, since we have luckily had one appointed, has got a co-ordinating Committee dealing with stores, accounts and finance business which meets regularly every week, and gets through a lot of very good business.

1787. But they cannot at that meeting look at individual contracts?—No, but I am speaking of the improvement of system, and that is all we can aim at with the huge masses we have to deal with.

Sir *Charles Henry.*

1788. You have to thank the Committee on National Expenditure for the appointment of the Financial Secretary?—If I may say so, I am very thankful to the Committee.

Mr. *Leif Jones.*

1789. You say that it is a great advantage to have a Financial Secretary appointed, and I agree; but how comes it that the Ministry waited for the suggestion from outside to appoint an officer whom you now recognise is advantageous?—Is not that rather a question that should be asked of the Minister than asked of his humble servant?

1790. Someone at the Ministry no doubt ought to answer the question, and if you have any doubt as to who in the Ministry should answer that question, doesn't that point to a lack of organisation?—It may be that, under the old régime, when there was an Assistant Financial Secretary who reported direct to the Minister, he was considered to be practically in that position which I have indicated as being so useful. Then, under the Munitions Council, there was a Council member for the finance side, but there was not a Parliamentary Financial Secretary.

1791. The only point of my question is this: As I understand it, you recognise that this is a great improvement which has been suggested by the House of Commons Committee which went into the organisation of the Ministry?—But you heard evidence from people inside the Ministry as to what their views were, I think.

1792. What I am anxious to know is this: Is the appointment of Financial Secretary, the outcome of the reorganisation which was going on, and which would have taken place probably without any Committee, or did you only look into this matter when it was suggested from the outside?—Oh, dear no; it was recommended in the Ministry long before, and was pressed for, and I think the Committee gave it the necessary help on, if I may put it in that way.

1793. You understand it would give one a very uneasy feeling if it was supposed by the House of Commons that all the Government Departments waited until ignorant Members of Parliament suggested to them how they should organise themselves?—The Council was formed with a member representing finance; but he was in the awkward position that he was not a member of the House, nor the Accounting Officer. So that he was in rather a difficult position. There ought not to be anyone between the man who answers your Committee here and the man who answers in the House. If Sir Herbert Hambling had entered the House we should then have had a Financial Secretary in the proper sense.

1794. The

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Henry Craik.*

1794. The question of the appointment of a political officer is always one for the political head of the Department, and not for the permanent head?—Certainly. (Sir *Henry Gibson.*) The political officer existed before, although we was not called Financial Secretary.

Mr. *Higham.*

1795. With regard to the question of staff, and the suggestion that there are between 50,000 and 60,000 in the country and between 15,000 and 20,000 at headquarters, I think we might have a return classifying them and separating them as between headquarters and the country?—You have had a very good statement, which was sent to the House by our Ministry, which shows the staff at both out-stations and headquarters—sub-heads A and B, which are our headquarter's staff and our out-station staff. A very complete return has been presented to the House, and I may add that it took a long time to get it out.

Chairman.

1796. (To Sir *Henry Gibson.*) Dealing now with the Appropriation Account itself, and turning to the first paragraph of your Report on page 7, Sir Henry, do you want to make any general statement on this?—No, I do not. I should only like to say this, that I read the debate in the House the other night on the Vote for the Ministry of Munitions with great interest, and there was one statement made by the Minister which I thought might have been a little less sweeping. I do not wish in any way to ask for kudos for my Department, but I did rub my eyes when I read the statement in the papers that the whole of these paragraphs in my Report on the scandals, or alleged scandals, which were brought to light were discovered, not by the Comptroller and Auditor-General, but in the Ministry of Munitions itself. On reading the official volume of the debates, however, I see that it says, "the bulk of the materials contained in the Report," which does somewhat qualify the statement. I should like to point out with regard to this matter that my audit is a very slight test. I say in my Report that I have available only a very small trained staff for this purpose, and therefore the points that I have drawn attention to have been brought to light by a very slight test conducted by a very small number of men. Secondly, of course, this Report for 1916-17 is the second year's work on which I have reported. The first year, 1915-16, covered the period of only nine months, and it was the first year of the Ministry's existence, and my report dealt possibly with it with rather a light hand; at any rate, I did not draw attention to a number of cases in detail, as I have done this year; I confined myself rather to dealing with questions of principle. Some of the specific cases which have been dealt with in the 1916-17 Report were brought up in a general way in my preceding year's Report. Some of those are illustrations of defects which still existed and were brought to light and commented upon in my first year's Report. I have drawn up a little statement showing the paragraphs in my Reports for the two years which owe their origin to the efforts of my Department upon a consideration of which I certainly do consider, and I think it will be admitted, that my staff deserve credit for having brought those matters to light. (Mr. *Dannreuther.*) I should say, on behalf of the Ministry that we have no complaint at all to make against the Comptroller and Auditor-General. We do not resent any of his criticisms—in fact, we should be obliged if they were a little more up-to-date, so that he could help us to shape our Ministry, but they come to notice in this Committee a long time after the event.

1797. I think you must both get a great deal more staff before that can be done?—(Sir *Henry Gibson.*) I should like my comments to be brought as much up to date as possible, and also that they should be replied to with as little delay as posible. (Mr. *Dannreuther.*) I have to apologise for our shortcomings in that respect, and I promise that the Comptroller and Auditor-General will get his answers more promptly in future.

Sir *Charles Henry.*

1798. What is your staff actually at the Ministry, Sir Henry?—(Sir *Henry Gibson.*) I will give you the numbers; I have got them worked out in six monthly periods. On the 1st April, 1916, we had one Directing Officer, one Chief Examiner, and four Examiners—six in all. On the 1st October, 1916, we increased to twelve. On the 1st January, 1917, we had seventeen; on the 1st October, 1917, we had twenty-two; and at the present time we have thirty-one all told, including twelve temporary clerks.

1799. Permanently then?—That is so, and we are proposing to have a slight increase in connection with added duties taken on by the Ministry in connection with aeronautical supplies and decentralisation of work at the Ministry, so that we shall possibly number forty in all.

1800. Do your representatives at the Ministry confine their supervision of finance to the Accounting Departments, or do they go into the other departments as well, for instance, the Explosives Department?—The Explosives Department is self-contained. A number of our criticisms are in connection with contracts which are made by the Contracts and Supply Departments and others; in fact, anything involving expenditure.

1801. My point is, do your representatives have their work solely in what one might call the Central Departments, or do they go into the sub-departments as well? I call the Contracts, the Finance and the Stores central departments. Do they go into the other departments as well?—We deal with all departments which render accounts or are concerned with the expenditure of money. I have sections of my staff, for instance, in the Explosives and Aeronautical branches of the Ministry.

Chairman.

1802. We will now proceed to deal with paragraph 2 of the Report, "Outcome of the account"?—Mr. *Dannreuther.*) It might interest you just to be told how our whole expenditure has gone. We have appropriated about £503,000,000; last year it was £222,000,000, and for the current year, or the year just finished, it will be about £620,000,000, giving about £1,345,000,000. Out of that—you must not think that all that money is gone—we have still got assets available which are rather large. If I may take our fixed capital, depreciated pretty heavily, I should say there is quite £40,000,000; stocks at cost are probably about £240,000,000; loans, metals and so on, another £70,000,000, say £350,000,000. Then if you add the stocks now held by the Army they are well over £100,000,000—the rough estimate is nearer £300,000,000, but they are subject to depreciation in certain cases. I can safely say, however, that more than one-third of the total expenditure to date is covered by existing assets. I thought that was a point you might like to have brought before you.

Mr. *Arnold.*

1803. But you do not suggest that that one-third consists of permanent assets; a certain proportion of it may be regarded as permanent?—I should say that I have depreciated the fixed capital pretty heavily, and very likely we will realise that from our machinery, etc. Our stocks, of course, so far as they are metals and so on may be worth their money or not, but of course that includes shells and all sorts of other things which will not have that value if the war ends, but as long as the war goes on they have their market value.

1804. As long as the war goes on they will be constantly being used up?—Quite so; but we shall always have a similar amount probably in hand. The amount appropriated

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Arnold*—continued.

appropriated is not all gone, and I thought that was a point worth making.

1805. It is a most interesting point, but its real value is what amount of the expenditure would you reasonably expect to recover at the end of the war? That is the figure we want?—It was in connection with that that we got out some figures, and I have given you the result of them.

Mr. *Leif Jones.*

1806. Is that amount increasing or has it reached its maximum? You are using up a great deal of those and replacing them daily. Is the value of your assets increasing?—I should be inclined to say that it must be decreasing. I think every bit of better organisation means less working capital and less stuff locked up. I think it would be on the decrease rather than on the increase except so far as the prices go up on the stocks of metals.

Mr. *McKinnon Wood.*

1807. You will be spending less money on the development of factories?—Absolutely; that is capital expenditure. In connection with new things like aeronautics, tanks and so on, there is a certain amount, but the main rush of heavy expenditure is over for shell factories, projectile factories, filling factories and gun factories.

1808. Those assets, as Mr. Arnold has pointed out, are of a very different quality; the stock of machinery or of plant in hand are very different things from shells, which are, of course, being blown into pieces every day?—I quite agree.

Sir *Charles Henry.*

1809. When you supply other Departments, the Admiralty or the Board of Agriculture, you invoice the goods to them, do you not?—We charge them; we do not charge the Air Ministry or the War Office; we supply free to them. It would be practicable that we should recover and it would make us entirely into a self-supporting body like the Royal Ordnance Factories, but there are free issues to the Army and the Air Ministry. The Admiralty prefer to pay.

1810. Have you any opinion as regards efficiency of accounting with regard to charging up to the War Office and the Air Service the supplies they obtain from the Ministry? Have you any view as to the desirability of charging to the War Office or the Air Ministry?—Certainly, I should like to do so, and I think it would make our accounts more complete. We would charge depreciation properly under it, and I think it would make our accounts more complete. The War Office would also know the cost of what they were ordering.

1811. And that applies to the Air Service as well?—Yes. As a general principle if we go on after the war we should certainly get to that, but now that we are in the middle of the war I am not certain about it. The limiting factor is not money during the war; it is tonnage and material and all sorts of things. If money was the limiting factor in the production of aeroplanes it might matter, but they want as many as they can get.

1812. I agree that money is not the limiting factor; but do you not think that it would tend towards any economy if each Department were charged up with their own expenditure?—If they were charged with the products we hand over to them?

1813. With what you supply?—I am very doubtful whether it would have much effect at present. It might induce them to cut down their programmes or to look into them more carefully. It would certainly have done so earlier in the war before there had become those limiting factors and before we had War Cabinet Priority Committees looking into programmes generally. I feel certain that in the early days it might have made some difference.

1814. But you think no advantage would be obtained now by effecting any change?—Personally, I am very doubtful. I think there are certainly other limiting factors at the present moment.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

1815. Is it not a much sounder system that the Department which orders goods should pay for them?—I agree.

1816. And it enables a much better conspectus of the operations of the Department to be obtained?—The Chairman knows a good deal about this, as he is Chairman of the Sub-Committee of the Select Committee on National Expenditure on the form of public accounts, and this point has been up a good deal before them. There has been correspondence with the Treasury on the form of our accounts if you would like to have copies of it.

1817. I am on that Committee also?—If it would be of any interest I will hand in the correspondence we have had with the Treasury. (*Handing in the same.*) (*Vide Appendix No.* .)

Mr. *Haslam.*

1818. Do I understand that the costs are entirely in the hands of the Ministry of Munitions, and that the Army and Air Service in ordering anything they require do not state the cost, or know the cost of what they order?—No, they do not; they simply demand the number of rifles or tanks or whatever they can get.

1819. Would it not have some effect on economy if they did know what it cost?—I think it might have had at one time, but I think it has not now. There is a limit now to the amount of steel, copper and everything available, and it is wanted for shipbuilding and every other sort of subject. It is only what they can get provided to them that they can have, and we have to form the best programme we can. Things are dealt with very thoroughly between us and the War Office If money were the limiting factor it would be a different matter, but it is not. Nobody is getting all they ask for; they cannot get it at present because of the tonnage difficulty.

1820. If the system was altered now you think it would not be worth the cost?—I do not think so. From the point of view of accounting I should not mind charging up to them and being able to take the money, as we could make our vote entirely self-supporting except for our capital expenditure. It would be perhaps more correct, but it does not very much matter.

1821. It would not improve the balance-sheet of the nation. That is all I care about?—I do not think so.

Mr. *Arnold.*

1822. You mentioned an item of forty millions for capital expenditure which you expected to recover. There are cases, of course, of firms where you make this arrangement with them I believe, that you will provide certain plant which you are to pay for it (it is in the nature of capital expenditure), and at the end of the war that plant is to belong to you. That is so, is it not?—Where the contractor puts up plant?

1823. No, but in certain cases the Ministry provide plant for a contract on the arrangement that the plant at the end of the war shall belong to you?—That is quite correct.

1824. What I want to know is, are all these arrangements made very carefully, and are you quite satisfied that at the end of the war in a big works where a part of the plant may belong to you and part may not, there will arise no serious difficulty or squabble as to which is which?—We hope not. We have inventories taken very carefully of every article belonging to us, and we are also attempting to arrange to sell these to the people if we can if they can arrange finance and so on.

1825. I think it is very arguable whether that is the best thing which could be done from the point of view of the national purse?—Certainly, where it is in the contractor's own ring fence, it is desirable to part with it if you can get a decent price.

1826. The contractor knows that he is in a strong position, because he knows that if you are to sell it to anybody else or take it away you will have all the enormous expense of removal?—We have got the benefit

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Arnold*—continued.

of the Inland Revenue Valuation of their plant as a whole, from the point of view of excess profits, which comes in very usefully at times, and it is possible to deal with the whole thing as a whole. We have got some checks in that way.

1827. You can assure me that in all these vast cases where the arrangement is that at the end of the war the plant is to belong to you it is all very carefully indexed and scheduled, and that you know exactly what it is?—I will not say that the indexing and scheduling is complete, but they are getting on very well. That is a point referred to somewhere else in the Report. Shortage of accountants has been at the bottom of that, that is the one place where we have been trying to get more and more qualified accountants for the audit of those assisted contracts as we call them. I admit they are very much in arrear, but it is hoped that we will get sufficient assistance in a few months to get them carried out.

Colonel Sir *Herbert Jessel.*

1828. In some cases does not the whole building and land belong to the Ministry? It is not always in the hands of contractors?—Do you mean the national factories? In the case of a great many of the national factories, representing some 60 odd million of expenditure, or something like that altogether, the land is ours. Where we put up a big factory we insist on having at least a very long lease of the land, so as to have a fully realisable value at the end.

1829. In that 40 millions were you taking into account those national factories?—Yes, I was making a rough shot as to what our capital assets would be if we properly depreciated. They do not stand in our books at 40 million, but much higher than that.

Mr. *Arnold.*

1830. That was a conservative estimate?—Yes.

Chairman.

1831. (To Mr. *Barstow.*) With reference to paragraph 3, Mr. Barstow, is there any further development in the relationship between the Treasury and the Ministry in respect of Treasury control?—I do not think there has been any further change in the relations between the Ministry and the Treasury than that stated here.

1832. What made the Treasury fix the £50,000 limit?—(Mr. *Dannreuther.*) The correspondence in connection with it is all in the print I have just handed in.

Mr. *Leif Jones.*

1833. Does that also explain how you work with the Treasury when a proposal for over £50,000 is put up?—That comes before the Treasury Emergency Standing Committee, which meets twice a week, which I attend with my deputy—Mr. Barstow and Sir Robert Chalmers representing the Treasury.

1834. It is the Emergency Committee which passes these schemes?—Yes, or asks for further particulars, or turns them down occasionally. Any expenditure over £50,000 does not go forward until the Treasury Emergency Committee considers it, but it may be considered in the office and go before one of the Sub-Committees of the War Cabinet to consider whether if it was passed there would be material and labour available.

1835. I wanted the order of proceeding. The first thing is that a proposal is put forward to the Ministry by one of the Departments?—That is so.

1836. That is sent as a matter of course, if it is over £50,000 capital expenditure, to the Emergency Committee?—It does not go there straight away; it has to be thrashed out in the office first. It goes to the Munitions Works Board, which is the works finance branch of the Ministry, where it is looked at, and it is passed

Mr. *Leif Jones*—continued.

by the various financial people concerned, and it eventually comes to me or my deputy to take it forward as a proposal to the Treasury.

1837. Would it go before the Financial Secretary first?—That would depend. We do not want to flood him with everything, and I might decide myself to go with it to the Treasury. It does not follow that it would go to the Financial Secretary. Supposing we have a general sanction to spend a certain amount, say a million pounds, on aeroplanes, and there is a proposal in connection with the provision of some drying kilns for aeroplane wood which would cost over £50,000, I might consider that a reasonable thing and it would have to go to the Treasury, but I do not say that I would necessarily trouble the Financial Secretary with it.

1838. Because you had that general sanction beforehand to expend a million, as you say, on aeronautical works?—Yes; it depends on the type of case whether I would trouble the Financial Secretary. One case of £50,000 or a bit more might be obviously the right thing to do; there might be no question about it, and he would say, "Why bother me?"

1839. Who would sanction the million?—The Treasury in that case. Where there are big schemes like that we go to the Treasury first before getting down to individual schemes. When the aeroplanes had to be increased enormously it was seen that we should have to start a few national factories for aeroplanes. Rough estimates were made to start with as to what they would cost, and we got Treasury sanction to embark on three national factories. Then the details are worked out afterwards, submitted and discussed.

1840. Going to the Treasury means going to this Emergency Committee, does it?—Yes, all proposals go to the Treasury practically through this Committee now. Occasionally the Treasury may say "Write," but they are rather better dealt with by conversation and cross-examination at this Committee. We save a great deal of correspondence with the Treasury through this Committee. Records are kept of the decisions and we get a Treasury letter.

1841. I want to know your opinion as to whether this way of spending by means of this Committee is on the whole not only more expeditious but also more effective in controlling expenditure than the other system?—I think so myself. You might like to ask Mr. Barstow for his view.

1842. I should very much like Mr. Barstow's opinion upon the subject, because I think it is a very important point?—I think they are able to ask questions much more readily. (Mr. *Barstow.*) I think that is certainly the case—that the Treasury representatives at the Committee can ask questions and press the Ministry representatives on any doubtful point and get answers without feeling that they are holding up a proposal, as would be necessary if the communication between the two Departments was limited to correspondence.

1843. That is what I should expect, but I take it a little further than that. Do your representatives on this Committee act with the full authority of the Treasury? Do they decide for the Treasury?—I think I have somewhere here the minute of appointment. The position is that the Board of Treasury have authorised this Committee to make decisions for them subject to reference to higher authority when the Treasury representatives on the Committee feel that higher authority is desired—that is to say, just as Mr. Dannreuther said just now, when he feels a matter is within his competence he decides it without troubling his Financial Secretary, so when this Committee feels that the matter is within their range they decide it without troubling the Chancellor of the Exchequer.

1844. Are you on this Committee?—Yes.

1845. What sort of consideration would make you feel that it was within your competence or not on the Committee? Is it the total amount or the newness of the proposal?—Sometimes it is a question of principle and sometimes a question of amount. If a scheme was going to cost something large in millions one would feel probably that the Chancellor of the Exchequer should

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

should know of it without any grave question of principle being involved. A smaller sum involving a very controversial point of principle again might be put to the Chancellor of the Exchequer.

1846. In the main it is left to your discretion?—Yes.

1847. But you would be inclined to err, I suppose, on the side of what—consulting higher authority or enlarging your powers?—We try to preserve a just balance, and not to err at all, sir. (Mr. *Dannreuther.*) Sir Robert Chalmers is on the committee.

Mr. *Blair.*

1848. What was the date of the Treasury decision about £50,000?—(Mr. *Barstow.*) It was in October, 1917.

1849. Recommendation was made in October, but when was the Treasury decision?—(Mr. *Dannreuther.*) That was the result of one of these discussions by this committee. There was a general discussion, which went on at this committee, and I think the Ministry's representatives agreed with the Treasury that the time had now come when we might be closing our capital account. (Mr. *Barstow.*) The date of the Treasury letter is the 11th December, 1917.

1850. Does all capital expenditure have to go before the Finance Department of the Munitions Works Board?—(Mr. *Dannreuther.*) Yes; all capital expenditure goes before the Munitions Works Board or it will do so if it has not.

1851. Does it do so to-day?—Yes. The Munitions Works Board is the Works Finance Branch of the Ministry; it has Finance representatives on it, and is to be strengthened still further in that way.

1852. It is going to be strengthened?—We are going to put some more people on it.

Sir *Charles Henry.*

1853. Do you include in capital expenditure loans to contractors?—Not money loans, but they may have advances or grants or contributions in respect of plant that they are going to put up. Supposing a man says "I will put up a chlorine plant costing £100,000, which will be worthless after the war, and I want a 33½ per cent. contribution to the cost," that would go before the Munitions Works Board, and would go to the Treasury, too, if the grant out of Public Funds is to be over £50,000 or is to exceed 40 per cent. These are the two limitations laid down in the letters.

1854. I want to know whether you differentiate between an actual loan to a contractor and a grant for public expenditure?—A loan at interest is treated purely in the Finance Department.

1855. And it does not have to go before the Secretary of the Treasury?—If the loans exceed £50,000 to any one person they now have to go to the Treasury. They did not have to go before.

1856. They do not have to go under this minute?—No; but that has been laid down quite recently in the correspondence between Mr. Baldwin and Sir Worthington Evans.

1857. I am right in saying that the loan of over £50,000 now has to receive Treasury sanction?—Yes. It used not to have to.

Chairman.

1858. (To Sir *Henry Gibson.*) Referring to paragraph 4, Sir Henry, have you anything more to say about the scope of audit?—No.

Mr. *Leif Jones.*

1859. You say, Sir Henry, that it has only been possible for you to provide trained officers for the audit of the Ministry's accounts to an extent very limited relatively to the mass of transactions. Can you amplify that a little? How limited?—I have tried to get from my officer in charge of this work some kind of statistics, and I find it very difficult to do so as to the percentage of audit, and I am afraid I am not in a position to give any precise information about it.

Mr. *Leif Jones*—continued.

1860. You would not give a figure?—I would not give a figure of 10, 15, or any percentage.

1861. If I offered you one, what would you say; did you do 5 per cent.?—I should not be able to say whether that was excessive or not; but, on the whole, I should say we did not do 5 per cent. In one sense we audit every payment. From what is called the appropriation point of view the whole expenditure of the Ministry is audited as far as proof of payment and correctness of classification is concerned, but I am referring here to my test audit.

1862. The scrutiny which has revealed the cases to which you have drawn attention in the report?—Quite so.

1863. So that this report of yours is compiled from an investigation which has covered a certain unknown number of cases which you will not say constitutes 5 per cent. of the whole?—That is so.

Mr. *Blair.*

1864. Upon that I would like to ask Mr. Dannreuther if he would say, roughly, how many contracts the Ministry has got to-day?—(Mr. *Dannreuther.*) I thought that would be rather an interesting thing for you, and I have a statement here.

1865. I want it only very roughly?—Omitting all small orders, spot orders for small quantities of stuff bought in the Explosives Department for their factories, and omitting contracts placed by the local area organisations, and taking account only of the main contracts of the Ministry in the year 1915-16, the figures were 12,730; for 1916-17, the year with which this report deals, they had grown to 27,882; and for 1917-18 they had more than doubled again, and the figure is 62,882; so that gives you some idea of the growth of the contracts and accounting departments, and the accounts have become more complicated still, because there has been more and more buying by sub-departments of raw materials and so on. As Sir Worthington Evans told the House the other day, our Accounting Departments deal with two thousand millions per annum; those are the kind of transactions which would have to be accounted for if you took every purchase and sale.

Sir *Charles Henry.*

1866. The turnover?—You never buy a complete shell now: you buy copper and sell it again; you buy a copper band and so on; you have got to have practically what comes to, from your accounting point of view, a purchase or sale at each stage.

Mr. *Blair.*

1867. Would Sir Henry say out of those 27,000 contracts which have been mentioned what would be the percentage that your officers looked at?—(Sir *Henry Gibson.*) I cannot give you that.

1868. One per cent.?—No. I should doubt if it was 1 per cent., but I will try and get some more exact information.

Mr. *Higham.*

1869. I take it that you saw the invoices and accounts?—My staff has seen the bills and scrutinised them for compliance with the necessary departmental examination and allowance which in some cases is made by chartered accountants. Closer investigation is made when it appears to be necessary within the limits of the staff available. (Mr. *Dannreuther.*) The bills have risen something like 500,000 or 600,000 per annum until at present they are at the rate of 1,200,000 per annum. That, again, gives you some idea of the growth. (Sir *Henry Gibson.*) I have to cut my coat according to my cloth. I have not been able to get trained men in adequate numbers from any source whatever. I say again that I have not competed with Departments such

as

9 *May* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Higham*—continued.

as the Admiralty, War Office and Ministry of Munitions for chartered accountants because I know that they are doing better work for the State in those Departments. It is much better that you should employ such men in the limited numbers available in the prevention of errors before payment rather than in the detection of them when made, while those who are capable of going into the cost and effecting actual reductions in the price of shells, etc., are doing specialised work of the first importance which is outside the functions of my office. Our comments in this direction are based upon comparison of results, not on detailed analysis of the cause.

Mr. *Leif Jones.*

1870. If you had had a larger staff you would had made much more investigation into these matters?—Certainly, and probably have discovered more errors, but I again say that the most valuable work is done by those officers in the Department themselves.

(*The Witnesses withdrew.*)

Thursday, 30th May 1918.

MEMBERS PRESENT:

Mr. Baldwin.
Sir Henry Craik.
Sir Charles Henry.
Mr. Higham.
Colonel Sir Herbert Jessel.
Mr. Leif Jones.
Mr. Jowett.
Sir Robert Williams.
Mr. McKinnon Wood.

Sir ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. S. DANNREUTHER, C.B., Mr. G. F. GARNSEY, and Mr. A. WATSON, called in; and Examined.

Chairman.

1871. (To Sir *Henry Gibson.*) I think you wanted to make some statement, Sir Henry?—I wanted to give an answer to Mr. Leif Jones's questions Nos. 1,859 and onwards as to whether I could give any precise information as to the extent to which I have carried out my audit on the contracts. Mr. Dannreuther gave the figures of the number of contracts for the years 1915-16, 1916-17 and 1917-18, and he stated that the number for the year with which this report deals was 27,882. I wish to explain that it is very difficult for me to state precisely the extent of my audit, but it is rather wide, as it covers anything from the merest scrutiny to the most minute investigation. I would just like to mention that there are about four categories of work which I apply to this contract audit, first of all to see that the examination has been properly conducted in the Departments themselves. In that case, I see every single contract payment that is made, and therefore, as I have explained, I do see every contract bill from that point of view, in order to see that it is properly examined within the Department, and that the usual checks are applied. Upon that I think I may say that the work in the Department itself is generally well done, and any errors on that basis would be detected, so that, in fact, my work is very unfruitful in that particular. Then there is the question of applying a test of prices and other details with the summarised departmental lists of contracts. In the Ministry of Munitions they have a list of contracts that they issue, and, I think, I may say that the percentage I examine is about 10 per cent. in order to see that the prices, etc., agree with the contract conditions. There, again, I think there is not very much result from my audit. Thirdly, there is the inspection of the actual contracts themselves, the agreements, etc., and without guaranteeing the percentage, probably we examine about 1 per cent. of the actual contracts themselves. Then there is the fourth category, which is most important, I think, and upon which most of these cases have arisen, and that is the collation of individual bill payments with the Branch Accounting Record of the contract transactions themselves. That is done in very few cases, the extent of which is determined by the general or specific suspicion of some particular error. In these cases we have applied some particular line of investigation which has resulted in big questions of accounts being taken up by us with the Ministry. This last class, as I said before, is by far the most important, and here I could not give any percentage of cases, but it is a very small number. The value of the work of my staff in this respect is that in selecting certain cases they very often spot the most likely cases to go wrong. I have no fixed rate or percentage in that last case. That statement covers, as far as I can give it, the classes of examination, and the percentages of scrutiny which we apply to contracts.

Chairman—continued.

Sir *Charles Henry.*

1872. May I ask if you have considered any method by which you could get greater efficiency in the internal organisation of the Ministry as regards contracts and accounts?—I think, if I may say so, Mr. Garnsey or Mr. Dannreuther will be able to state at a later stage, or now if they like, what steps have been taken. The particulars are set forth in the correspondence of which you have a copy. But, so far as I am concerned, I have hardly had time to judge of the results.

1873. My point was as to whether you had formed any independent opinion as regards this matter?—I think the course that they have adopted, which can be stated in greater detail by Mr. Dannreuther or Mr. Garnsey, is certainly on the right lines, and perhaps the honourable member himself in the course of his investigations in the Department may have come across the method which has been adopted.

1874 I

30 *May* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

1874. I wanted to see if I could get any light upon it from you?—As far as I can see the new procedure adopted is certainly more up to date and is on sound lines, and it has been approved by the Treasury.

Mr. *Leif Jones.*

1875. Did that new procedure arise as the result of your investigations, or subsequently to your investigations? I should not like to say that it was entirely due to my investigations as it has been in process of evolution for some time. I think Sir John Mann, in his evidence, last June, stated that they had started this procedure. In the first place they set up an Internal Audit Department; but perhaps Mr. Dannreuther would admit that the work of my Department has assisted in bringing to light errors, although I think they have been fully alive themslves to the unsatisfactory methods which were in force before.

Sir *Charles Henry.*

1876. When you talk of new procedure are you referring to a procedure which is now in course of development or something which is already in operation?—It is now absolutely in operation.

1877. You know nothing about any other new procedure which is being considered or entertained at the Ministry?—I am afraid that I should not be in a position to know anything about that. We are only cognisant of procedure when in operation, and they would not discuss any steps they proposed to take with me.

Chairman.

1878. There was something else you wanted to say about that matter, I think?—(*Mr. Garnsey.*) May I say something about the fourth category mentioned in Sir Henry Gibson's remarks? I am here to do all I can for the Ministry. My business is that of a chartered accountant. I am in practice, and my whole work is spent in connection with audits, so that I realise the difficulties in which Sir Henry's department must necessarily be placed. I doubt whether an audit of this character has ever been conducted by any professional firm, or any body or individual before in this world; but I have noticed that Sir Henry's representatives show an extraordinary aptitude for getting on to the weak spots. This arises out of the remark made by Mr. Leif Jones on the last occasion as to what percentage of the work was involved, and some percentage of, I think,

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

of 1 to 5 per cent. came up, and one only wants a little imagination to see that if we get all these errors in 1 to 5 per cent. of an examination, what would be the errors in the remaining 95 per cent.

Mr. *Leif Jones.*

1879. Not imagination, but arithmetic?—I think I saw the line of the argument, but the point is, and I think Sir Henry will agree, that his staff does really concentrate on those accounts where errors have in fact been made, and I sincerely hope that if he conducted an investigation of the whole of the remaining 95 per cent. nothing like the same proportion of errors would be found in that remaining part of the work. (Sir *Henry Gibson.*) I am quite prepared to admit that; if we had conducted the examination completely it does not at all follow that we should have discovered anything like the same proportion of errors.

1880. I agree, but are you able to say so with any confidence?—Oh, yes.

1881. You had some ground for suspicion, I suppose, beforehand in connection with the cases upon which you proceeded?—They were the largest and most important contracts in amount, although in number of contracts they formed a small proportion. I think no doubt in these huge and varied contracts with big firms there is more scope for accounting errors than there would be in many of the smaller contracts. (Mr. *Garnsey.*) In that connection may I explain that since Sir Henry's inquiries were put forward I have, as head of the Accounts Department of the Ministry, caused enquiries to be made in connection with other accounts which might present the same kind of difficulty, and the same errors have in fact not been found—that is to say, Sir Henry's department have got on to the weak spots. We welcome the criticisms which Sir Henry puts forward because it helps us to mend them and to see whether there are weak spots of a similar character in other departments.

1882. You say that you are satisfied that Sir Henry has found out practically all that is wrong?—I would not care to go so far as that, because it is difficult to say, but I would say that Sir Henry's department have found a very large proportion of the errors which have been made in the Ministry.

Chairman.

1883. I think there was something else you wanted to say to us, Sir Henry?—(Sir *Henry Gibson.*) No.

ACCOUNTS OF THE MINISTRY: GENERAL.

Chairman.

1884. With regard to paragraph 5 of the Comptroller and Auditor-General's Report on page 7, Mr. Dannreuther, can you say something about those further changes which are still in progress? Are they in progress still?—(Mr. *Garnsey.*) May I explain to the Committee that I think it was in the latter part of last year that we began to put the accounts of the Ministry on what is known as a double entry basis. Under the old system they were kept on what is known as the single entry basis. I do not want to go into the deficiencies of the single entry basis, and no doubt most of you know these, but we had to take the sections up in turn; it could not be applied all at once because it meant certain changes in different sections. The result, however, was that as at the 31st March this year the whole of the accounts of the various sections of the Ministry were put upon a double entry basis, so that any payment that is made to-day does not automatically, as it used in the old days, get written off and disappear, but it is charged up to the section which has to account for it. That is really the sum and substance of the whole difference between the accounts on the single entry basis and on the double entry basis.

Chairman—continued.

A sum cannot get lost sight of immediately it is paid; it is charged to the section which has to account for it, and they have to show exactly how the money is accounted for, and as and from the 1st April of this year the accounts are on that basis. Although, of course, we are not perfect and probably never shall be until the end of the war, and we no doubt shall stand here at some future date and have to excuse ourselves for all the errors which may be occurring now, at the same time we are doing our best to cure those errors, and I think by putting the system on an ordinary commercial basis we have done everything that is possible at this stage, and by following it up we hope we shall be able to cure any trouble arising in the future. That method starts as from the 1st April of this year.

1885. (To Mr. *Barstow.*) I presume the Treasury are satisfied, Mr. Barstow, with what has been done?—Yes, the changes have, in fact, been made after repeated consultations with the Treasury Officers of Accounts.

1886. Have you also done anything with regard to capital expenditure, Mr. Garnsey?—(Mr. *Garnsey.*) In what connection?

1887. Keeping

ACCOUNTS OF THE MINISTRY: GENERAL.

Chairman—continued.

1887. Keeping any record of capital expenditure?—Yes, one of our sections known as No. 6 has a very considerable record at the present time of money that has been spent for capital purposes, whether it is the property of the Ministry or whether it was lent or given to contractors in order that they might carry out certain extensions in which the Ministry might for example have certain interests. For instance, it might be partly the property of the Ministry, or we might have an interest which we could sell afterwards. In all these cases we keep proper accounts, and are building them up, although they are not complete at the moment by any means.

1888. Building them up from what?—We are going through all the back records of payments made by the Ministry in order to find them out, and we are putting them in a ledger. We have nearly £20,000,000 sterling already on the books, apart altogether from the national factories, representing the property of the Ministry.

Mr. *Higham.*

1889. You are changing the single entry system into the double entry system of writing the books up?—Yes.

Sir *Henry Craik.*

1890. You say that from the 1st of April of this year you began the system of double entry. That had not taken place before?—Yes, in certain departments.

1891. But to a certain extent it had been neglected or given up?—No, it never had been started?—(Mr. *Dannreuther.*) The system of double entry does not apply in any Government Department.

1892. You say that it never applied, but had it not been applied to the more moderate payments in other departments in previous years?—(Mr. *Garnsey.*) Do you mean in other Government Departments? I am afraid I have no experience of other Government Departments. (Mr. *Dannreuther.*) They never were, I think, upon the double entry system; our accounts with the Paymaster-General were always on double entry, but the contractors' accounts were not. We only bought complete articles, and we were not a buying and selling department. The books were not designed for it.

1893. I want to find out this. You established a certain system you tell us which operates from the 1st of April this year, having found that system not in operation previously?—(Mr. *Garnsey.*) Yes.

1894. Are you aware that that system did in pre-war times prevail in at least one Government Department?—I have no knowledge of that, because I have no knowledge of any Government Departments outside the Ministry of Munitions. (Mr. *Dannreuther.*) It did not apply in either the War Office or the Admiralty or any other Department that I have had to do with.

1895. It certainly applied in one large spending Department, the Education Department?—We have had our central records on the double-entry basis. Those contract ledgers which are spoken of here are really mere note books for the purpose of the clerks satisfying themselves that the bill was correct, but the payments were made in the Central Cashier's department.

1896. They were not used as effective checks?—More or less they were in the nature of note books, where they noted contracts so as to be able to pass the bills and see they were correct, and authorised payments by the Central Paying Department.

Colonel Sir *Herbert Jessel.*

1897. I suppose in the War Office this sort of thing would pass through the Contracts Department?—I was there for five years, and I was in two other Finance and Accounts branches, but the Contracts Department never paid; they never paid accounts. It was the Finance Department which kept a record of the contracts for the passing of the bills. I do not consider that all our troubles are due to not having had double entry.

ACCOUNTS OF THE MINISTRY: GENERAL.

Mr. *Higham.*

1898. Do you mean that it never has been in vogue either in the War Office or in the Admiralty?—Except in the Central Accounts. The accounts of the contractors were kept in the Finance branches. (Mr. *Garnsey.*) May I suggest that it would be quite impossible to prepare, and I have never yet seen, a balance-sheet prepared by the War Office or the Admiralty. (Mr. *Dannreuther.*) This is the first balance-sheet I have ever seen prepared; it has been prepared by our Department, but it is provisional, so that I cannot show it. By the end of the year I hope you will have a proper one.

1899. I should say that a balance-sheet is not necessary, but if there was no double-entry system what was there to prevent an account being paid twice over?—The store check in the Government Store Records.

1900. Say that I get an account paid, and that I send it in again. I know of a case of an account being paid twice over, and when I am told that there is no double-entry system in force I see immediately how that arises?—(Mr. *Garnsey.*) May I explain what happens in that way? When your first invoice is received it is sent to the people who receive the stores, and they enter against the Store Records the fact that the invoice has come in and been passed for payment, so that a note is made against the entry in the Store book that your first invoice has been rendered, and that is stamped on the invoice, which thus goes out and is paid. When your second one comes in it goes through the same process, and someone in the Store Record Office says, "You have already been paid," because he has a mark against it. That prevents double payments to a large extent.

1901. So that the whole safeguards rest upon that man's pertinacity; but if he has a lot of invoices one morning, and marks them off straightaway and passes them through the moment he has passed them, there is no further check?—We have had cases of that character.

Sir *Charles Henry.*

1902. Now you have adopted the proper double-entry system?—Yes.

1903. May I ask what are the relations between the Internal Audit Department of the Ministry and the Central Accounts Branch which is mentioned in paragraph 6?—May I explain that? The Internal Audit Branch of the Ministry is the branch whose duty it is to reconcile the contractors' accounts with the books of the Ministry. It is part of the Central Accounts Branch.

1904. What is the Central Accounts Branch?—The work of the Internal Audit Department is auditing, and the Central Accounts Branch is keeping control of the various sections; there are 33 of them, and this Central Accounts Branch has an account with each section, showing exactly what money they have to account for.

1905. Mr. Dannreuther mentioned that through this new system of internal audit £20,000,000 had been accounted for which had been more or less lost sight of?—£10,000,000, I think, was the figure.

1906. £20,000,000, I think?—I think £10,000,000 was mentioned in the House.

1907. Mr. Dannreuther mentioned £20,000,000?—(Mr. *Dannreuther.*) I think that was the writing back on to our live assets, that was the figure of capital expenditure written back on to our live assets. They had not been lost sight of, but they were in memorandum form.

1908. I should not have said "lost sight of"?—We had had discharge for them. (Mr. *Garnsey.*) May I say this: the records were contained in jackets in the Ministry, but there was no ledger to which you could refer in order to see the Ministry's property. They had not been lost sight of. That is the distinction.

1909. May I ask this: Of those £20,000,000, was any of it which remained in the jackets due from contractors who knew that they were owing money to the Ministry?—Not as far as I know.

ACCOUNTS OF THE MINISTRY: GENERAL.

Sir *Charles Henry*—continued.

1910. A certain amount of money (I do not want to anticipate Clause 6), as the result of your investigation of the accounts of the various contractors, was found to be due by them?—That is an entirely different thing.

1911. Then this question of £20,000,000 does not refer to accounts, but to materials?—The £10,000,000?

1912. The £20,000,000?—The £20,000,000 is simply building up and getting a complete record of the property of the Ministry.

1913. What do you call property?—Such things as lands, buildings, plant and machinery.

1914. Nothing to do with accounts?—Nothing to do with contractors.

1915. The £20,000,000 had nothing to do with the accounts of contractors?—Nothing at all. (Mr. *Dannreuther.*) There was a short note prepared by the Controller of Accounts, in answer to one of the Comptroller and Auditor-General's queries on the Improvements in Invoicing Ministry Issues, if you care to have it. It explains simply some of the problems which are before the Accounts Department (*handing in the same*). [*Vide Appendix No. 12.*]

TEST OF CONTRACT LEDGERS AND RECORDS IN A SELECTED CASE.

Mr. *Leif Jones.*

1916. (To Sir *Henry Gibson.*) Referring to paragraph 6 of your report, Sir Henry, may we know what form the inquiries took? What was the series of inquiries? Could you give me the main heads of the inquiry? This was based upon an investigation you made which led you to put certain inquiries?—All this really means is that we noticed some very large transactions with two or three firms, and we decided to apply the final category of adult previously referred to to the particular transactions of those firms. We got hold of the contracts and also of the Departmental Records in order to see how they were being dealt with and how the payments were being made under the contracts. That is all.

1917. Were the mislaid documents found, or did you ultimately have to do without them? You say in the paragraph that there were great difficulties through the mislaying of documents?—I think we have had them all since. Of course, in an enormous Department like the Ministry, which is housed in many different buildings, we had some difficulty, but we have had the same trouble with the Admiralty. There was considerable difficulty in getting documents at the time.

(a) ERRORS AND OMISSIONS IN RECORDING REPAYABLE CASH ADVANCES.

(Mr. *Dannreuther.*) Would you like any particulars about some of these?

Chairman.

1918. The Comptroller says that in respect of cash advanced under a contract which has since been cancelled no active steps have been taken to recover the sum or otherwise to adjust the firm's account?—I rather demur to this expression in this particular case. This item of £230,000 consisted of two advances in respect of a contract placed through this big armament firm with an American company for supplies from America, and the home firm were only agents. That was for machine guns. Owing to failure in delivery, 90 days' notice of termination was given on the 5th April, 1916, and on the very date of the expiry of that notice formal demands for the refund of the deposits were made. I recollect this because I personally saw the financial director of that firm on the matter, so that steps were taken. The firm were only agents, and they had difficulties in recovering from America, as our powers of complete termination of the contract were contested and the American company claimed a lien on the money. When it was recovered it was at once handed over to us.

ACCOUNTS OF THE MINISTRY: GENERAL.

Chairman—continued.

1919. Upon that statement the Comptroller's assertion that no active steps had been taken to recover the sum seems hardly justified?—I do not think it is myself. I happened to have to deal with it.

1920. The transaction seems only to be what you would call a dead transaction, which was not forgotten?—(Sir *Henry Gibson.*) I may say that I read the papers, which did not record the steps which Mr. Dannreuther seems to have taken. (Mr. *Watson.*) The main papers did not. (Mr. *Dannreuther.*) I am afraid a great many papers are not in the main file in our Department. (Sir *Henry Gibson.*) If I had been aware of the facts which have now been related I should not have made the remark in my report.

Sir *Charles Henry.*

1921. Is the firm in paragraph 1 the same as the firm in paragraph 2?—(Mr. *Dannreuther.*) Yes, these are the same firm, and one of the very big firms with whom we have big open accounts, as much as £10,000,000 on each side.

1922. Am I right in coming to the conclusion that as regards this firm they were debited twice with £750,000?—That is the next paragraph.

1923. Yes?—There again I think Sir Henry has got so many good cases against us that I think he might have omitted this one. May I give you the facts?

1924. On reading it I thought the firm had been debited twice with £750,000?—An advance was properly recorded on a provisional Memorandum, an advance made before the contract was made. When later a contract was made a proper contract sheet was opened and the advance entered thereon, but the old provisional sheet was not immediately destroyed, but left in the ledger. It really is not a double-posting in that particular case, and a very eminent accountant whom I consulted on the matter in our Ministry told me that if he had come across the case in the ordinary way of audit he would have said to the clerk, "Tear up that sheet."

Mr. *Higham.*

1925. The sheet was a sheet which was not entered in the ledger?—A provisional sheet was opened because there was no contract.

1926. The paragraph says distinctly "had been posted twice in the same ledger"?—(Mr. *Garnsey.*) I think the fact is that it was entered on the provisional sheet when the advance was made because the complete nature of the contract was not known at the time. Presently when the contract was finally completed the full noting came forward on another ledger sheet, the £750,000 was duly entered on that proper sheet. All that really happened was that they omitted to take out the previous sheet.

1927. You would not call that being posted twice?—No. (Mr. *Dannreuther.*) Again, this is only in one branch in the office; it is not in the central ledgers of the Ministry. (Mr. *Garnsey.*) Sir Henry will agree that it was merely transferring it from one contract sheet to another, but omitting to take out the provisional sheet.

1928. I understand posting to the ledger to mean debiting or crediting an account in the ledger?—It is not posting in the sense in which I understand it. (Sir *Henry Gibson.*) My staff point out to me that there have been similar errors which have led to considerable inconvenience, but perhaps it was not strictly correct to say it was posted twice. (Mr. *Garnsey.*) The point I think one could make is this, that if we did post it twice it was always in our favour.

1929. I quite agree?—There was no double payment here.

1930. No?—It was in our favour, and the contractor might have got £750,000 less than he ought to have had. (Mr. *Dannreuther.*) In the same way in the other case of £250,000, that was not copied from the provisional sheet to the main ledger. It was a direct failure on the part of one of the personnel; but still the charge remained in the Central Cash Record under the Contractor's personal account, and it could not have been

ACCOUNTS OF THE MINISTRY: GENERAL.

Mr. *Higham*—continued.

been lost sight of altogether. These were not the main records of the Ministry on which the payments were made. The contract ledgers are kept by the branches passing the bills.

1931. Taking the paragraph as a whole, I thought this contractor was debited with £270,000 more than he should have been debited with?—(Mr. *Garnsey.*) That is what it comes to.

(b) OVERPAYMENTS ON AMMUNITION CONTRACTS

Chairman.

1932. Have you anything to say on paragraph (b), Mr. Dannreuther?—(Mr. *Garnsey.*) Perhaps I ought to explain with regard to the £509,000 which is referred to in the paragraph that the whole of that money has been recovered except £50,000, which is now in course of being recovered from the contractor.

Mr. *Leif Jones.*

1933. Upon that, at what stage did you become aware and how did you become aware that the bills for the completed articles had been paid in full, although you had made these large advances to the contractor?—(Mr. *Dannreuther.*) I think there was a reason given for it. This firm had a contract for complete rounds of 18 pr. ammunition on which they should have supplied all the material and components, but about July, 1916, it was found that they were receiving supplies of components from Woolwich and elsewhere. Inquiries were immediately set on foot with a view——

1934. It was found out, as this says, but I want you to explain who found it out; who suggested it?—(Mr. *Watson.*) That was found out from records which were coming forward from Woolwich Arsenal of issues made to contractors. About June, 1916, the position arose that we knew that big issues which we had not recorded on the ledgers of the Ministry were being made to contractors. We jumped at once to the conclusion that the greater part of these issues would be made by our Central Depôt at Woolwich Arsenal, and made an examination of their books to see in what way they agreed with the records of the Ministry as regards issues.

1935. Had you any control at the Ministry of Munitions of what materials were issued to your contractors?—There was a control at the Ministry, but the Ministry branches were a little indefinite in their notification to one another. The consequence was that the Accounts Department had not received notification when an authorisation went from the Supply Department to that depôt to send goods to a contractor.

1936. Then your being ignorant of this was due to the failure of communication inside the Ministry?—Certainly. (Mr. *Dannreuther.*) The primary cause of all our trouble was defective store accounting and the record of movement of goods until the Central Stores Department was formed early in 1917.

1937. How did you find this out—by receiving records from Woolwich that this stuff had been issued?—(Mr. *Watson.*) It was really a position which some of us in the Department recognised was existing. We were getting up vouchers from Woolwich which showed that issues were being made from there of which we had no knowledge from notifications given to us by Supply Departments.

1938. How many such vouchers did you receive before you began to inquire?—I could not say that.

1939. To whom did the vouchers from Woolwich come?—They came from the Deputy Director of Ordnance Stores at Woolwich.

1940. To whom?—To the Ministry.

1941. To whom in the Ministry—which Department?—The Finance Department of the Ministry.

1942. On receiving these vouchers what did the Finance Department do?—They started making inquiries as to the breakdown in the system by which they were not notified.

ACCOUNTS OF THE MINISTRY: GENERAL.

Mr. *Leif Jones*—continued.

1943. How soon? You say they received these vouchers, but they must have come one by one?—They did.

1944. Did the first vouchers arouse suspicion, or the first 10, or the first 100?—I should not say that the first vouchers aroused suspicion, because the staff was very much pressed at the time.

1945. You mean the work had got into arrears?—It was in arrear. (Mr. *Dannreuther.*) Badly in arrear; we had not enough staff.

1946. You must have realised it was going on?—(Mr *Watson.*) As soon as they were examined.

1947. Can you tell me how long it is from the time the first voucher arrived until the moment of your investigation and discovery that the system was wrong? That I am afraid I could not do at all.

1948. A week?—Probably much longer than that.

1949. A month?—I should think it is highly probable.

1950. Six months?—Certainly not six months, because it probably started about January, 1916, and the inquiry was made about May. I think between January and May these vouchers would arrive at the Ministry, and there would have been some delay over sending them up.

1951. Was the delay at the other end?—Certainly at Woolwich there was delay as well as in the Ministry—a delay in sending vouchers from Woolwich as well as a delay in dealing with them at the Ministry. (Sir *Henry Gibson.*) Our first query on the subject was dated in February, 1917. (Mr. *Dannreuther.*) That was long after. (Sir *Henry Gibson.*) There did not seem to be very much done to set matters right at the time we sent that query. (Mr. *Dannreuther.*) No.

1952. That is a question I was going to put; how far did the Comptroller and Auditor-General's questions lead to the investigation, or had you done it all before?—(Mr. *Watson.*) The greater part of the investigation had been made before the receipt of his query. We were fully aware when we received his query of the general position, but our steps to put it right were not complete.

1953. You were only hoping; you were trying to get it right before his queries arrived; you were anxiously awaiting them?—If you like to put it in that way, but we had been working at the position for six months before the query arrived.

1954. And now such a thing is impossible, I understand?—I think so, undoubtedly, since the establishment of the Central Stores Department.

1955. Through your Central Stores Department you are no longer ignorant of when an order to issue material to contractors is made?—No; we believe now the system to be absolutely safe in that direction, but, of course, there may be errors.

1956. Delay at Woolwich would not be known to you?—The delay at Woolwich would not affect the matter.

Colonel Sir *Herbert Jessel.*

1957. Why do you say that the delay at Woolwich would not affect the matter now?—I think if you read the notes about invoicing which Mr. Dannreuther has put in they will explain to you that we have a system now of invoicing when we get the first advice of the delivery of goods. In some cases when they send out an issue warrant we invoice consignees, and in other cases when we get the first advice of goods being issued, without waiting for the repayment voucher to come along to us.

Sir *Charles Henry.*

1958. The firm mentioned in this paragraph (b) is the same firm?—(Mr. *Dannreuther.*) The same firm. It is right to say that we were holding up an equal amount of money against this £700,000.

1959. Am I to take it that these statements that this firm was making demands upon the Ministry which called for this Report by the Comptroller and Auditor-General were not justified?—(Mr. *Garnsey.*) May I explain that we have latterly (I do not know whether that

ACCOUNTS OF THE MINISTRY: GENERAL.

Sir *Charles Henry*—continued.

that was the fact at the time this Report refers to) treated the whole of this firm's accounts as one? You will notice that they deal with specific contracts here, but at the present time we treat all the contracts of the firm as one. The last account which was prepared showed that we were indebted to this firm of contractors to the extent of a million and a quarter sterling after taking into account everything that they had not been charged with in the way of components and stores.

1960-2003. That is at the present time, but I am dealing with the period of the account?—I think probably the firm would be able to render you a statement to show that at any time practically a similar state of affairs existed. (Mr. *Watson.*) The firm were regularly rendering statements showing that at least there was a considerable amount owing to them.

2004. May I ask one question on the last paragraph in paragraph 6: The Comptroller and Auditor-General "urged the importance of ascertaining whether all issues to contractors recorded in the Stores Depôt Accounts have been duly charged to them in the contract or other ledgers." That is a point I intended to bring out before, but you said it did not arise on that matter. Now, on this question of the contractors being charged with the supplies they received, whether raw material or component parts, am I right in supposing that a certain amount, a substantial amount, of material had been supplied to contractors which had not been charged to the contractors? (Mr. *Garnsey.*) Yes.

2005. A very substantial amount?—Yes.

2006. Could the Committee have what you estimate that amount to be at the highest point?—It is a little difficult to say, and I will tell you why. This originated in the Internal Audit Section. I was in charge of the Internal Audit Section when I first came to the Ministry, and our duty was this: We sent out to the contractors and asked them to send in statements in two forms (1) showing the materials they had received from the Ministry, whether charged or not, and (2) the bills they had rendered to the Ministry whether paid or not. Now, as the result of examining the first form, which showed exactly the materials they had received, that indicated to us that there were certain lines if you like where there had been failure to charge them for material which had been sent out from different sources, and from one contractor to another. We were able at once to cure the deficiencies which were then disclosed, and we were able to start invoicing right away, so that it is impossible to say exactly what was the effect of this discovery.

2007. £20,000,000?—But in point of fact what I would call direct recoveries as the result of this inquiry have at present yielded about £8,000,000 sterling for materials alone. As to how much has been recovered indirectly it is impossible to estimate, because the wheels were immediately set in motion as soon as we saw where the deficiencies arose.

2008. You are not by any means at the end of your troubles, are you?—Well, we hope we are getting very near the end of them.

2009. I thought you hoped you were not?—I hope we are all the same, but there is still a considerable amount to be recovered, no doubt, although nothing like the same figure which has been recovered so far.

2010. If you had not started this Internal Audit Department, and you had not made the discovery, what do you think the position of the Ministry would have been? Do you think that the contractors (I know some of them would) would have come forward and said: "We owe you this money"?—I think that is quite likely. It does not necessarily follow that it would not have been found out. It might have been found out later.

2011. What do you call later?—It might have been a month, six months, or a year, or two years perhaps; but it did have the effect of our being able to put on foot a certain organisation in the Ministry at once, which enabled us to effect immediate recoveries.

2012. Were there many instances of contractors having notified the Ministry that they had received

ACCOUNTS OF THE MINISTRY: GENERAL.

Sir *Charles Henry*—continued.

certain materials or certain supplies of goods from other contractors for which they had received no invoices or no accounts?—I believe there have been a number of cases.

2013. So that some did notify?—Undoubtedly.

2014. But a few did not notify?—A good many.

Mr. *McKinnon Wood.*

2015. Do I understand that the way you discovered it was that you sent out forms to the contractors to fill up, and then you discovered that there were things you knew nothing about?—They told us exactly what had not been invoiced. There were certain records still in the Ministry which did not afford a comparison because they were older records, but as soon as we had the contractor's returns they enabled us to see that this material had not in point of fact been invoiced. That was the effect of it.

2016. I understand that, but you did not discover it?—If you like, the return from the contractors put us on to the points of weakness.

2017. That is what I wanted to get at.

Sir *Charles Henry.*

2018. Did you not first find it out from the fact that you had purchased and been supplied with a certain amount of material which might have gone into stores or direct—say 5,000 or 10,000 tons, and only 2,000 or 3,000 tons had been accounted for?—That put us on to the track of some things, but not to a very large extent.

Mr. *McKinnon Wood.*

2019. I understand you had no books which would have given you that information with any degree of accuracy; if you did not keep the thing by double entry you would not have any account?—There would have been considerable difficulty in rendering correct charges against the contractors if we had not had the returns from them. One has to admit that there would have been difficulty. I must say that in a good many cases, while records had been kept, they had been lost, no one knows how, they simply disappeared.

2020. And it was the Internal Audit Department which discovered these?—It set the wheels in motion. (Mr. *Dannreuther.*) A similar thing was proposed some 15 months before, and it was at the Ministry's wish that it was postponed, owing to the possible impeding of supply, as they did not want to worry the contractors. It was known for a long time before that there ought to be this reconciliation. (Mr. *Garnsey.*) It also disclosed that our contractors' books were very nearly as bad as ours.

2021. Did it really?—Yes; it showed they had just as bad a record as we had, and in a good many cases we have had to send staffs literally into the contractors' works, to go down to the gate books and see what material they had got before we could get any record at all even from them. (Mr. *Dannreuther.*) And they have tendered us payments, which we have had to refuse, so that therefore there are cases of duplicate payments the other way about.

Sir *Charles Henry.*

2022. It does not reflect much credit on the system of accounts in this country. Now or previously, when a contractor receives material from the Ministry on an invoice, does not he have to send you in some return saying, "I have received so much material"?—(Mr. *Garnsey.*) We do not rely upon that to-day at all.

2023. But do you get any notification from the contractor?—Yes; he has to send what is called an advice note that he has received the goods, but he hands that back to the consignor, the contractor who sent him the goods, because we will not pay the consignor until he gets a receipt from the consignee. We do not rely upon that invoice.

2024. In these days when there was this lack of charging contractors with goods supplied, was not that

30 *May* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

ACCOUNTS OF THE MINISTRY: GENERAL.

Sir *Charles Henry*—continued.

in force then at the Ministry, that with regard to the goods you supplied direct and not through another contractor he had to notify the Ministry of the reception of the goods?—I cannot speak with very long experience. I am not sure at what date exactly this method of advice note came into operation. (Mr. *Watson.*) January, 1916.

2025. Taking these contractors who received goods, they were not charged up with and never notified to the Ministry that they had received them, do any of them now demur to paying for the goods they did receive?—(Mr. *Garnsey.*) No.

2026. Have you had any difficulty in collecting the accounts?—None at all; there may be a single instance or two, but I have no knowledge of any given case at the moment.

2027. Have you charged them with interest from the time they received the goods until payment was received?—We have in one or two cases tried to do that, but in the instances which have come to my special knowledge the contractors have been able to demonstrate that we have been as long behind in our payments. (Mr. *Dannreuther.*) We have had to consider whether we should not come off worse in that respect.

Mr. *Jowett.*

2028. Are you sure that you have tracked all the material which has been transferred in this way?—(Mr. *Garnsey.*) The inquiry is still being conducted, and we will not be quite sure therefore that we have exhausted everything until the enquiry is finished.

2029. Are you fully convinced that you are going to?—We are.

Mr. *McKinnon Wood.*

2030. Have you any means of checking the amount which has gone out in that way?—In quantities? That is a very difficult thing.

2031. I suppose you had not a system of book-keeping which would have enabled you to do it?—I am afraid we had not.

Mr. *Higham.*

2032. I take it from one of your replies that before the Internal Audit was set up those contractors in some cases had written to say that they were receiving goods not invoiced to them?—I am not sure about that, because I was not in the Ministry before that date.

2033. It was after you came in that it happened?—Yes. I thought you referred to the time we started this inquiry; we then received some, but it was after they had been asked to supply information.

2034. I meant before your inquiry?—(Mr. *Watson.*) There were before that date cases in which contractors had drawn our attention to the fact that they had received goods for which they had not got invoices.

2035. Upon that could you not set up an investigation?—The investigation was the result of that, and other matters came to light.

Mr. *McKinnon Wood.*

2036. Would you not expect that when the contractor sent you in a statement he would have given you credit on that statement for the material he had received?—I should have expected it.

Mr. *Higham.*] But you would not expect a contractor to make up an invoice from the supplier to himself? I should never do it in business; I should write for an invoice, but I should not make the invoice out myself.

Mr. *McKinnon Wood.*] He might note that he had received 100 tons of copper or something else at so many pounds a ton.

EVIDENCE OF DEFECTIVE CORRELATION OF ACCOUNTING BRANCHES.

Chairman.

2037. (To Mr. *Dannreuther.*) Have you anything to say about this paragraph 7, Mr. Dannreuther?—I have got a short statement on it. This was an important company connected with America which had large orders for cartridge cases, primers, and, I think, fuses.

ACCOUNTS OF THE MINISTRY: GENERAL.

Chairman—continued.

The advances were made in New York, on behalf of the company, for buying metal, and they were to be repayable with interest, the Ministry having the option of making 60 per cent. deductions from invoices. Each of these advances was entered in the Official Register of Repayable Advances and Loans, but there was an omission to notify the Contract Ledger Branch, with the consequence that the Advance Account was not credited as early as it might have been and the interest charges when claimed by us were therefore larger. When the loan for materials was reported to the Contract Ledger Branch there was no contract yet noted, and as usual a provisional sheet was opened. When a contract noting came through and a proper ledger account was opened, owing to an unfortunate mistake, the provisional account was not transferred to it and hence there was the further delay referred to by the Comptroller and Auditor-General. The loans, as I have already said, were at interest, and it is not considered that there has been any loss to the State. The settlement of interest charges has taken a long time, and has involved prolonged investigations. If we had reclaimed the advances earlier interest would only have run to the date of the deliveries on which payment would have been kept back in satisfaction for repayment of the loan. The contractors contended that that was the right basis of payment, and as a matter of fact in justification of this is the fact that they only put forward demands for payment on account of deliveries as they needed the money as they had money in hand of ours. A compromise has been arranged which was reported to the Treasury, and it was quite satisfactory to the Department. The whole of the loan has been recovered. I mean as regards interest we claimed interest right up to the date when we made the recovery and they claimed that that was not right, but that they ought only to pay interest up to the date when we ought to have recovered. If we had recovered earlier they would have been entitled to charge us more by claiming 80 per cent. on their deliveries, which they did not do knowing that they had money in hand; so that I do not think there has been any loss to the State.

Mr. *Leif Jones.*

2038. You do not explain how it comes that even after the Comptroller and Auditor-General's inquiry the Ministry went on making large payments from which no deduction had been made for three months?—That was, I believe, owing to an error in making the transfer from the provisional sheet to the Main Contract Sheet when it was opened, and therefore it was not noted on that that the recoveries had to be made. The money was going on at interest; it was a loan at interest.

2039. What was the date at which you received the Comptroller's letter?—(Sir *Henry Gibson.*) The 5th April, 1917, was the date of the original letter, I think.

2040. Who received that letter? First of all, to whom is it directed?—(Mr. *Dannreuther.*) It goes first of all, I think, to the Central Cashier's Branch, and is sent round to the Branch concerned. We have now got a better system. We have not been so prompt in dealing with the Comptroller and Auditor-General's queries as we should have been, but that matter is now put into the hands of a special section.

2041. If it is all dead and done with it is perhaps not worth bothering about, but why, after you receive a letter from the Comptroller and Auditor-General drawing attention to an unsatisfactory system, do you then go on for three months doing the same thing?—I am afraid the paper or the letter was completely lost, and a copy was furnished by the Exchequer and Audit Department later.

2042. This is as late as the 5th April, 1917. We are not dealing now with the early days of the Ministry; we are dealing with a period when a good many reforms had come into operation?—The paper seems to have been lost entirely, and a great deal later, towards the end of last year, a copy was furnished.

2043. What happens to a man in the Ministry who loses an important letter?—I do not know whether you

30 *May* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

ACCOUNTS OF THE MINISTRY: GENERAL.

Mr. *Leif Jones*—continued.

you can prove who lost it. It is just like letters going wrong in the post. We do not get heaps of our letters, and a good many go wrong in the Department, particularly now since, in order to save paper, they do not register papers. Things are received now and sent from branch to branch—loose papers.

Mr. *Jowett.*] In whose charge was the letter?—It would be in somebody's charge.

Mr. *Higham.*

2044. Did you, Sir Henry, get a formal acknowledgment?—(Sir *Henry Gibson.*) I don't think so. (Mr. *Dannreuther.*) The papers are not put into a registered jacket, by which you can trace the transit about the office—at any rate, not nearly to the extent they should be, and that is in order to save stationery.

Mr. *Leif Jones.*

2045. On the 5th April, 1917, Sir Henry Gibson wrote a letter to the Ministry, and it was delivered on the 6th. That letter has not been traced in the Ministry, as I understand?—The original of it. (Mr. *Watson.*) The original of that letter could not be found, but a copy was obtained in September, apparently. (Mr. *Dannreuther.*) In October.

2046. A copy was obtained in October. Sir Henry, did you take any steps when your letter was not acknowledged by the Ministry?—(Sir *Henry Gibson.*) Yes. Of course, there are a good many of our letters which remain unanswered for some time. After a certain period we should send a reminder; but I do not know that in this case the delay was inordinately long for the Ministry.

2047. What happend in this case—that is what I want to know?—I was going to say that I have a reply here. In fact, these reference sheets are sent out on half-sheets, and I have the original and the reply here. This appears to be our original sheet, which at some time or other was found at the Ministry, and a reply was sent, which appears not to be dated, so that I cannot say when we received it. My Branch note that they had submitted a further query on the 17th September, so that probably we got a reply towards the end of August or the beginning of September.

2048. Then what happened, Mr. Dannreuther, in the Ministry apparently was that, although the letter was not recorded anywhere nor its receipt acknowledged, it was dealt with by somebody at the Ministry?—(Mr. *Watson.*) It was apparently mislaid for about four months until it became registered, and was then replied to.

2049. It did turn up ultimately?—It did turn up.

2050. And when it turned up four months later you sent it on to the Comptroller and Auditor-General?—Yes.

2051. If you looked at the paper you would know in whose handwriting it was?—I know certainly who dealt with it in September.

2052. You do?—(Mr. *Dannreuther.*) Yes. Here is the actual file of papers.

2053. Did you consult the person who dealt with it in September as to when the paper came into his possession?—I may point out to you that we are not dealing with ancient records now, but with September, 1917?—(Mr. *Garnsey.*) There is no doubt, Mr. Leif Jones, that there has been very grave delay in dealing with these Exchequer and audit queries, but I think I can go so far as to say that these delays will never occur again. I think Sir Henry will have no reason to refer to such delays in his future Reports, and if he does I will take it upon my own head, because I have now taken the responsibility myself to see that he gets his replies promptly.

2054. If that is so, I need not worry further about it?—I think you may take it that it is ancient history, and that if these queries are not dealt with in future I am willing to pay for it with my head. (Sir *Henry Gibson.*) I have, in fact, very clear evidence to show that the system has now been established on an entirely different footing, and I understand that the Financial Secretary now takes a special interest in the matter. (Mr. *Garnsey.*) There are still a large

ACCOUNTS OF THE MINISTRY: GENERAL.

Mr. *Leif Jones*—continued.

number to deal with. I hope I may save my head until these have been disposed of.

Sir *Charles Henry.*

2055. As regards the transaction referred to in paragraph 8, am I right in this, as far as I can draw any inference from this Report, that a certain contractor got an order for a very large amount, and payments of £4,700,000 were charged against him, and afterwards he was told not to go on with the contract, and it was transferred to some other firm?—(Mr. *Dannreuther.*) That is not correct. There was a contract made with the first firm for 2,000,000 sets of components from America, shrapnel and high explosives.

2056. It was an American firm?—They are both American firms referred to here.

2057. When you say an American firm, was the contract made with the firm in America?—The first contract was made through the same firm we were dealing with before here.

2058. They acted as agents?—Yes. The contract is known by the combined name—the name of the firm we have been dealing with before and the name of the American firm. They had a contract for 2,000,000 sets of components.

2059. Placed in America or here?—Placed with the firm here. They were really, I think, to a certain extent agents; it was not for their own manufacture.

2060. They were intermediaries?—The components were offered at an inclusive price per set, so much per set. These prices were split up over here for accounting purposes, and the separate prices for components may not accurately reflect the actual cost of each item, and that may be of importance later on. The contract ledgers, which were, as I explained before, more or less notebooks at the time, did not have the complete records, but there are most complete records for this contract in an office file with documents supporting every single payment. It is probably the most complete record we have got, only it does not happen to be in what is called the contract ledger. There is an office file in which you have got in one bundle or jacket the complete thing, with every telegram from America and every inspection report supporting the payments for the whole sum.

2061. Did you get the telegrams from America, or did the firm get them?—We had them from our inspecting officer. It is probably as complete a record as it is possible to have, although it is not in the form in which it was customary to have them. On the second point about the £10,000——

2062. Did this firm get debited with £1,400,000 whereas it ought to have been debited with £4,700,000? That is the first point?—The payments were made for £4,700,000; and they are all properly recorded in this office file, but not properly recorded in the contract ledger, which was more or less a notebook at the time. (Mr. *Garnsey.*) On the office file they are debited with £4,700,000; but in the contract ledger itself, which was taken over, I believe, from the War Office, only the figure of £1,400,000 appears. That was a mere note; the real records were in this particular file, which shows exactly what payments were made to the firm.

2063. May I ask this: Supposing the Financial Secretary of the Ministry wanted to see the position of this firm's account, what would he have been shown?—(Mr. *Dannreuther.*) He would have had the office file with the complete story from A to Z as it went week by week; it came forward every week for the new payments to be made.

2064. He could not have gone to the ledger to find out the position?—This was better, because it had a top sheet carried forward showing the whole history to date.

2065. Then I would ask Sir Henry Gibson why he has made a point of this?—Because he is referring to the contract ledgers, which, as I have explained, were not then an integral part of our accounting system. (Sir *Henry Gibson.*) My point is that the ledger is the proper book in which the record should be made. It is now stated that there is one complete record in the file

ACCOUNTS OF THE MINISTRY: GENERAL.

Sir *Charles Henry*—continued.

file of papers with regard to this contract, but I was not aware of that, nor do I consider that that is a proper system of record for a Department to have. (Mr. *Dannreuther.*) I admit it is not, and the system is being changed.

2066. You are not surprised that I or any other member of the Committee should find this rather involved, are you?—(Sir *Henry Gibson.*) A great many of these transactions are very involved.

Mr. *Leif Jones.*

2067. I wish simply to interpolate this question into Sir Charles Henry's examination: Why was not the file handed to Sir Henry Gibson as the record was there? He asked for the records?—(Mr. *Dannreuther.*) Did he?

2068. I take it he asked for the records. Why was not the file handed to Sir Henry Gibson?—It is open to him certainly. It is rather a fat file.

Sir *Charles Henry.*

2069. May I draw your attention to the concluding paragraph, in which Sir Henry says: "In May last I asked for explanation and further information on the various questions, but I have not yet received a reply"?—I think it has been since sent.

2070. If you had it all at hand in this big file, why not supply it to Sir Henry at once?—(Mr. *Garnsey.*) That is the same question which Mr. Leif Jones raised. There were no doubt grave delays in dealing with these inquiries.

Mr. *McKinnon Wood.*

2071. Would you not agree that to have a record of loose sheets of paper passing through the office, and possibly used for other purposes, is a very unsatisfactory way of keeping a record of an account? It does not compare at all with having a proper ledger entry in a book which is to be preserved?—Every entry would be made in the central ledgers when the payments were authorised down stairs and kept in the cashier's or the ledger department downstairs. (Sir *Henry Gibson.*) I think Mr. Dannreuther has admitted now that this system has been altered and that this question therefore is out of date and dead.

2072. I hope so.

Sir *Charles Henry.*

2073. Unfortunately we have got to investigate things which are dead; we want explanations on your Report. May I go on to the second paragraph? Am I to understand that the greater part of these supplies that you got from these American firms were delivered over to some other firm to be assembled together?—(Mr. *Dannreuther.*) Yes, they were handed to another large American firm for assembly, one of our biggest suppliers. The other firm had also had a contract for 4½ millions of complete rounds of high explosive and shrapnel. They were our main source of supply for shrapnel and as deliveries were required urgently they said they could hurry deliveries if we would give them 200,000 empty shrapnel in exchange for 225,000 high explosive. They made that offer, and at the prices generally ruling it was a favourable exchange, as shrapnel at that time cost the same or less than high explosive. That exchange was made on their contract; they were also doing the assembling of the components supplied under the other firm's contract, and we gave them 200,000 of those for their own contract, and they were to give us some extra high explosive shell, which they did. Their own prices for the complete rounds, I think, were more or less identical. (Mr. *Watson.*) They were the same. (Mr. *Dannreuther.*) Therefore there was no loss from the point of view of their contract.

2074. I am not concerned about that, but I am concerned with Sir Henry Gibson's Report that "no charge was raised in the contract ledger against this firm, and there was no evidence that any steps had been taken to secure the due return of the goods supplied"?—All I can say again is perhaps the same, that there were full particulars on the office files. Our financial agents in America were paying under the second firm's contract, they were the people responsible for making payments to that firm, and they were fully aware of this transaction; in fact, the cables went through them.

2075. Were your financial agents in America kept informed by you?—Of this transaction?

2076. No, were they kept informed by you here of the status of the accounts of your different contractors in America?—They kept the accounts; they were our paying branch; they examined the bills and kept the account on the second contract.

2077. Did they not make payments in accordance with your instructions.—(Mr. *Watson.*) They made payments under the conditions of our contracts. (Mr. *Dannreuther.*) They were just like our bill paying branches at home.

2078. Therefore it is to be hoped that the American agents debited the firms with the supplies they received?—(Mr. *Watson.*) They did. (Mr. *Garnsey.*) Might I interject here that the ledgers do in fact show the position to-day—namely, that £4,700,000 was paid to the firm, and the other contractors who received the components have been debited with the 2,000,000 rounds, and they are being traced (the whole have not yet been traced) to show that they were in fact all received in this country. We anticipate no difficulty at all in connection with the account.

2079. That is all done by the Internal Audit Department?—Yes.

Mr. *Higham.*

2080. May I take a point there: £4,000,000 of goods were given to this firm: did the American agents deduct in the current account the goods delivered before they paid the account? To take an illustration, supposing that £100,000 worth of goods in the way of component parts were sent to this firm, and they sent back then £120,000 worth?—You are speaking of the second firm? It was a free issue to the second firm, and they were only paid for the work they did on it.

2081. It says in the paragraph: "The greater part of the deliveries valued at over £4.000,000 was handed over to another firm under an assembling contract, but no charge was raised in the contract ledger against this firm"?—Sir Henry means the charge for the quantities only.

2082. There was no record of quantities; they were paid for the work they did?—That is all.

Mr. *McKinnon Wood.*

2083. These transactions are not now carried out through the same American firm, are they?—(Mr. *Dannreuther.*) They are still paying agents for us, but they are no longer the commercial agents who place the contracts. They are acting as our paying branch, but the contracts are made by the British Commission or the branch of the Ministry of Munitions in the United States of America. The American agents who have been referred to do exactly the same sort of work that our ledger clerks do here; they pay the money from the agency account and debit us with whatever they have paid. They are no longer directors of contracts; they are only an accounts branch.

DUPLICATE PAYMENTS.

Chairman.

2084. (To Mr. *Dannreuther.*) Have you anything to say about this question of duplicate payments which is mentioned in paragraph 9, Mr. Dannreuther?—We are doing all we can to stop them. Securing store charge before payment and the debiting of consignees from an advance copy of the advice note, all helps towards it. Whenever a duplicate bill is to be paid now there is a red ink entry made so as to draw attention to it, so that any new advice notes or inspection notes coming along may be checked up against this, and the number, I believe, has got down very much lower.

2085. I suppose the real explanation is, as stated on page 10, largely due to individual error?—Yes, it is a good deal, and to other causes.

Mr. *Leif Jones.*

2086. You say it is largely due to individual error, but the object of good book-keeping is to neutralise as far as you possibly can the infirmities of human nature?—I think

ACCOUNTS OF THE MINISTRY: GENERAL.

Mr. *Leif Jones*—continued.

—I think the object which has been before Mr. Garnsey and his colleagues has been to make a perfect system, so that there should be as few as possible of these human errors which will not get detected.

2087. You will observe that in this paragraph Sir Henry Gibson says that he has repeatedly brought this matter to the notice of the Ministry, and nevertheless, subsequent to his repeated warnings, he still finds these mistakes are happening; I would like to know when you are speaking of it whether you took any notice at all of the fact the Comptroller and Auditor-General was bringing these points to your attention?—It has been constantly before the various people who have been accounting officers, and steps were always being taken to try to minimise it.

2088. You have altered your system?—Very considerably, I think, as you will find explained in the Memorandum I have handed in. There are a great many safeguards now, and if a duplicate payment runs through the books it will be rather an exceptional case which has passed through all the obstacles it has to get over in its path. They are not eliminated entirely.

2089. Are you satisfied that the system is now as good as it can be made?—(Mr. *Garnsey.*) I would like to say this: There is no doubt that the number of double payments is very much less than it used to be. I wish I could say that there would be no overpayments, but I do not believe that we will ever arrive at that stage. It is, in fact, the human element the whole time. You may have what safeguards you like, but still individual errors will arise. I will give an instance of the sort of thing which happens. A bill is rendered, supported by what are known as the red copies of the Advice and Inspection Notes by a contractor, and on that he is entitled to be paid. It disappears, nobody knows how; it is lost. Two or three weeks afterwards the contractor complains that he has not had his money, and the Department replies: "We have never had your bill, we do not know anything about it, send us another." He proceeds to send another, supported by Advice and Inspection Notes, not the actual copies, but additional copies, known as the white copies, perhaps. They look up the ledger and say, "Yes, he has not had his money, pay it," and it is duly paid. Presently from somewhere unknown appears the original, which was lost several weeks ago.

2090. Four months afterwards?—Yes, perhaps months afterwards. The individual says, "Here is a bill, we must pass this," and, in fact, it gets into the ordinary channel for payment of bills. Meantime, under instructions from the heads of the sections, inasmuch as the first bill that was paid was paid on wrong supporting evidence, it was entered in the ledger in red ink (this is an actual case), in order that attention might be drawn to the fact that it was something out of the ordinary. Believe me, it really is appalling; the man who gets the original invoice comes along, looks up the ledger, and says, "This has not been paid before, pay it now." It does happen, you can say what you like and think what you like. We have removed some from their positions.

2091. What do you say to that particular man?—I would not care to repeat it here.

Chairman.

2092. You have removed men?—We have removed men, but we shall get those errors still. We are not going to say that we will never get them again, and I am sure Sir Henry Gibson knows that that is the case. We do all we can to prevent them.

Mr. *Leif Jones.*

2093. But you are supposing that the system is as good as it can be?—No, I am not satisfied that it is yet. We have had some queries recently from the Comptroller and Auditor-General, which indicate that there are still some weaknesses. Every time we get these we go to the section in order to find out exactly what the weakness is, and it means that we have to alter our system or to make some other arrangement or remove the individual in charge or do something to prevent it, and that is going on the whole time. I am never going to say that we are perfect, because I believe we never shall be.

2094. What is your view of the matter, Sir Henry? Are you satisfied that the Ministry have taken all the precautions they could?—(Sir *Henry Gibson.*) I think so, barring what you might call the element of human error. I do not wish to claim that we have discovered many such mistakes, I think not many, because you have had these virtuous contractors you have spoken of. (Mr. *Dannreuther.*) We deal with over a million bills a year, and I do not know if the proportion of errors to our total payments is bigger than you find in other Departments. (Mr. *Garnsey.*) I would like to get to the stage when there would be no overpayments, but I think there will always be some, and I will not say that when we are here next year there will not be some put before us.

Sir *Charles Henry.*

2095. Some of the contractors are virtuous and they point out what has happened, but others are less virtuous?—Yes.

2096. Do you take any note of those contractors who have been paid twice, so that their payments may be looked upon very closely?—There are certain contractors on the black list. We have our own black lists and suspense lists, and we have in one or two cases actually put the evidence before the legal advisers of the Ministry, and they have advised in several cases that while it was a very improper thing for the contractor to do, there was, in fact, nothing which warranted an action being brought against the contractor.

Mr. *McKinnon Wood.*

2097. Do you communicate with the Contracts Department and suggest to them that where they have the choice they should avoid these particular contractors?—We do; we have a system now whereby, if we are dissatisfied with a contractor, we immediately inform the Contracts Department that we think this firm should go on the suspense list, or that we think this firm should go on the black list, as the case may be, and then they will inquire as to why they should do so, and everybody is informed.

Sir *Charles Henry.*

2098. That is the greatest safeguard, I suppose, you can have?—It has not been started long, but it is in operation now, in fact.

Colonel Sir *Herbert Jessel.*

2099. As regards your payments, are you prompt in making your payments, or is there much grumbling about it?—I think, on the whole, we are very prompt; we have an average of two or three weeks' bills on hand all the year round—that is to say, a bill comes in one week and it is paid within three.

2100. There is no complaint now that contractors cannot get on because they are not paid?—The complaints generally come before me; I actually see the letters. One did, in fact, come yesterday from a contractor complaining that he had not received payment of four bills, and the sum total of the four bills was £9. That is the only complaint I have seen recently, but I dare say there are other cases I have not seen.

2101. When all the formalities have been completed and the papers signed, and so on, by the person responsible for making the payments, there is about three weeks' delay and not more, you think?—Not more than that unless there are special inquiries to be made. In the ordinary course it would go through in three weeks without any trouble at all.

2102. Was there undue delay at an earlier period?—Undoubtedly there has been delay in the past; in fact, we have had contractors making claims for interest owing to the delay in paying bills. That has all been in favour of the Government. I always smile at these cases, I am afraid, but the fact is that there have been delays, and we are endeavouring to cut them down as much as possible. (Mr. *Dannreuther.*) Even in the early days I do not think our record compared badly with the Admiralty or the War Office.

30 *May* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

ACCOUNTS OF THE MINISTRY: GENERAL.

Sir *Charles Henry.*

2103. Do you think that decentralisation would tend to improve matters?—(Mr. *Garnsey.*) We are decentralised from the accounting point of view to a considerable extent now.

2104. If it were decentralised I think that it would reduce the number of complaints, would it not?—You know my views upon that point.

2105. I think the Committee would like to hear them?—It would be helpful there is no doubt, and I would go further than that.

2106. If you decentralised into Departments to a greater extent conditions like this could be obviated greatly?—We could localise the weakness.

Chairman.

2107. With regard to paragraph 10, has that source of leakage been stopped in the different branches?—(Mr. *Dannreuther.*) That has all been put right. I think Sir Henry will admit that the query he raised was raised in respect of a minute from someone in our own Department suggesting improvements. It was referred to actually in the query he raised; someone in the Department had already suggested the improvment, and there has been no proof that there has been any double payment there. This is certainly an improvement on the system. (Sir *Henry Gibson.*) This reference was intended to be to your credit. (Mr. *Dannreuther.*) I thought that was what the remark was intended for.

MATERIALS, ETC., ISSUED TO CONTRACTORS AND FREE ISSUES.

Chairman.

2108. (To Mr. *Dannreuther.*) Referring to paragraphs 11 and 12, it is admitted, of course, that no adequate record was kept of all these things beforehand?—It is admitted that there ought to have been adequate records, but there was great difficulty in securing from the various Supply Departments adequate records of materials issued, and it was not until we got the Central Stores Organisation instituted early in 1917 that one can say the position became at all satisfactory. In the early days they considered that production was much more important than anything to do with storekeeping. There is a long history behind it, but there is no doubt that many of our troubles were due to the fact that they did not realise earlier, at the very start of the Ministry, that that would be a pivot on which so much would depend.

Sir *Charles Henry.*

2109. This refers to the same point you raised earlier on Clause 5?—(Sir *Henry Gibson.*) Yes. (Mr. *Garnsey.*) May I just say here, with regard to the question of Free Issues, that it is one of the most difficult things to deal with, and it is a pity, as Sir Henry points out in this Report, that the question of accounting for Free Issues has not been dealt with so rapidly as other portions of the work of the Accounts Department. It is very difficult indeed to say exactly at what stage the contractor has accounted for all the material he has received where his product is quite different from the material sent to him. We have got to get out tables; we have to take what is called a master lay-out showing the percentage of the material that he is entitled to use in making a given article, and it always differs from what, in fact, takes place at the contractor's works, and then there is a wrangle as to whether he has used too much of this article or that article. I want to make it clear to the Committee that this work is much more complicated than the other work, and we shall not get along with this so rapidly as in the case of the other work.

Mr. *McKinnon Wood.*

2110. Would you not suggest a modification of the system?—No, it has got to be gone through from the beginning.

2111. Would it not be easier if you priced the article?—That is being done now, to a large extent. Do you mean to charge the contractor?

2112. Yes?—We are cutting them out as fast as we can, but in certain cases the price of the article sent to the contractor may be £2, and the work he is required to put on it is a penny, and if you charge him with the article he will want his profit on the £2 instead of having his profit on the penny.

2113. You would only nominally charge him with the article; you would not ask him to pay for the article, and he cannot expect a profit unless he pays for the article?—As far as possible, every free issue is being cut out, and the contractor is being charged money value.

2114. You are still in his hands as to his honest use of the material because he may say that he has used more than he has done?—We are going further than that; we are actually charging him in money value, and he has to pay for it.

Sir *Charles Henry.*

2115. As between contractor and contractor?—Yes. and as between the Ministry and the contractor, but not entirely; free issues cannot be cut out entirely, and there are exceptions.

Mr. *McKinnon Wood.*

2116. He has to pay you for the article, and get in return a certain profit?—(Mr. *Dannreuther.*) It is chiefly for filling contracts that we have to maintain it. (Mr. *Garnsey.*) In the large filling contracts it seems the much better plan to charge the contractor with the quantities of material rather than charge him with the money value. There are difficulties in connection with the contracts; I do not know all the technique of it, but there are certain difficulties in connection with the contracts which make it more advantageous, from the point of view of the Ministry, to continue charging in quantities only. In most of these cases to-day we have auditors actually at the works who see as to the use of the material, and the loss on shortages is far less than it was.

WORK OF INTERNAL AUDIT DEPARTMENT.

Chairman.

2117. (To Mr. *Dannreuther.*) I think that paragraph 15 is the paragraph on which Sir Worthington Evans stated in the House that 10 million pounds had been recovered—I dare say. Personally I think it very extraordinary how they manage to trace all this stuff which comes from America, if one bears in mind what happened in the early days. Ships arrived from America at any port, nobody knew where, the Army got hold of the goods at once, and they were in France the next day, and it is not surprising that records of movements on receipt were wanting or deficient, but by going round to every port and finding every record and document that had been kept a wonderful result was accomplished. Mr. Garnsey has had a section at work for a long time trying to clear it off, and in fact to get a store charge for all goods bought in the early days in America. I thought we should have to write off a big quantity, not meaning that they were lost, but that we could not trace them. I believe they have reached a figure considerably better than that mentioned in the paragraph; in fact, the figure was already considerably reduced at that date. (Mr. *Garnsey.*) The actual figure here of £3,000,000 has been reduced to £471,000, and I am told that £200,000 of that will be cleared off at any moment. (Mr. *Dannreuther.*) Personally I think it is a great achievement to have succeeded in working it off, and it is a thing which has been worth the effort involved.

The Committee asked the last time for a list of the chartered accountants and incorporated accountants engaged in the Ministry. I have that Return now, and beg to hand it in (*handing in the same*).

(*The Witnesses withdrew.*)

Tuesday, 4th June 1918.

MEMBERS PRESENT:

Mr. Arnold.
Sir Hildred Carlile.
Sir Henry Craik.
Sir Charles Henry.
Mr. Leif Jones.
Mr. Jowett.
Sir Robert Williams.
Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. S. DANNREUTHER, C.B., Mr. G. F. GARNSEY, and Mr. A. WATSON, called in; and Examined.

Chairman.

2118. (To Mr. *Barstow.*) Have you something to tell us about the Morgan Commission, Mr. Barstow?—Yes, I am prepared to make a statement to the Committee. I do not know if the Committee would be willing that I should depart from the usual rule in mentioning Messrs. Morgan's name.

2119. Yes?—Messrs. J. P. Morgan and Company were appointed commercial agents for His Majesty's Government "for the purchase of such goods and supplies as they may be instructed to buy in the United States of America" by an agreement made on the 15th January, 1915, between the Army Council and the Admiralty on the one hand and the firm on the other. I will hand in a copy of the agreement for the information of the Committee (*handing in the same*). [*Vide Appendix No. 13.*] It will be seen that under Clause 11 of the agreement His Majesty's Government agreed to pay to the commercial agents in compensation for their services "a commission of 2 per cent. upon the net price of all goods and supplies purchased through them under the agreement until such net price shall amount in the aggregate to a sum of £10,000,000, and thereafter a commission of 1 per cent. upon any excess beyond such aggregate amount of £10,000,000." The agreement remained in force without alteration so long as Messrs. J. P. Morgan and Company continued to be the purchasing agents for His Majesty. It did not of course apply to payments by Messrs. J. P. Morgan and Company upon contracts not concluded by them as commercial agents. Messrs. Morgan undertook to make such payments gratuitously subject to an indemnity against the consequences of all acts done bona fide by them, but on payments in respect of purchases of sugar the firm received a commission of 1-32nd of 1 per cent. From January, 1915, to March, 1917, the firm had received in commission approximately 15 million dollars exclusive of some four million dollars on account of Russian orders, the Russian Government having adopted the same arrangement. Subsequent to the entry of the United States into the war the agreement lapsed, contracts being placed by His Majesty's Government in the United States of America through the British Mission in that country. Messrs. J. P. Morgan and Company continue to make payments in respect of such contracts, receiving a commission of one-eighth of one per cent.

Mr. *Arnold.*

2120. What is the total of the business done by Messrs. Morgan in the period for which they received 15 million dollars?—That can be verified by multiplying up the sum.

2121. You have not got it?—No, but you multiply it approximately 100 times; it is 1 per cent. with the exception of 2 per cent. for the first £10,000,000.

2122. Messrs. Morgan ran no risk in connection with anything, did they?—No, there was no risk.

2123. Was there ever any suggestion, when the arrangements were made, for any sliding scale or diminution in the commission if the transactions aggregated to a very large sum?—The arrangements were not concluded upon that basis. I ought to explain that the agreement was, I understand, negotiated by the War Office with the consent and the approval of His Majesty's Government.

2124. Why should Messrs. Morgan have got 1 per cent. on their ordinary transactions if they were content with 1-32nd of 1 per cent. on their purchases of sugar?—The sugar transactions are of an entirely different character from the transactions with Messrs. Morgan carried out as commercial agents for His Majesty's Government.

Sir *Charles Henry.*

2125. If I understood you correctly, the 1-32nd of 1 per cent. on sugar was only for paying for the sugar?—That is all.

2126. And not for purchasing, or anything of that sort?—No.

Mr. *Arnold.*

2127. Had they anything to do with the actual purchase or arrangement of the contract for the sugar?—I am afraid I am not familiar with Messrs. Morgan's relations to the Sugar Commission.

2128. With regard to their ordinary transactions on which they received 1 per cent., some of those would be for very big sums as repeat orders?—Yes.

2129. In connection with which Messrs. Morgan had really nothing to do but write a letter?—A repeat order might be an order in connection with which Messrs. Morgan could render very valuable service if they could negotiate a reduction of the price upon a repeat order.

2130. That may be, but very often there would be no reduction and simply a question of continuing the order?—The Munitions Department would be able to answer better than I can on that point, but I see no reason why repeat orders should not be on an even more favourable basis if Messrs. Morgan effected a reduction in price in comparison with the original orders.

2131. But in any case Messrs. Morgan ran no risk?—They ran no risk; they were purchasing agents.

Sir *Charles Henry.*

2132. The arrangement with Messrs. Morgan came into force before the Ministry came into existence?—Yes.

2133. You said that it was an agreement made between the War Office and Messrs. Morgan with the consent of the Government?—In form it is an agreement between the Army Council and the Admiralty on the one hand and Messrs. Morgan on the other.

2134. What I would like to know is why was the Treasury not the medium by which this transaction was entered into with Messrs. Morgan?—It was primarily a contract matter. The transaction was a transaction by which Messrs. Morgan became purchasing agents—that is to say, were responsible for placing contracts for supplies which the War Office and the Admiralty required, and, as the honourable member is aware, the Treasury has no direct relation to contract making.

2135. But before the War Office could have paid this commission of 2 per cent. or 1 per cent. to Messrs. Morgan they would have to get Treasury sanction, would they not?—As I said, I believe the negotiation was, conducted with the approval of His Majesty's Government at the time. It is not, so far as I am aware, a negotiation which was before the Treasury departmentally.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

2136. This is all past history, and there is only one other question I want to ask. This has some relation to present conditions: What arrangements were made with Messrs. Morgan on the question of exchange?—I am not sure that I can answer that fully.

2137. Besides being bankers, Messrs. Morgan are very large exchange dealers? I will not press the question if you would rather not answer it?—I think I had better not answer that question. (Sir *Henry Gibson.*) That would be better raised on the Vote of Credit where we get charges in respect of exchange; Sir Malcolm Ramsay could deal with that point then.

Mr. *Arnold.*

2138. There is one further question I would like to ask. Do you think, Mr. Barstow, when this arrangement was made by the War Office, or whoever made it (in some form or another I gather it must have come to the Treasury, surely), do you think it was contemplated that within the period of two years and two months the remuneration of Messrs. Morgan would amount to a sum of £3,000,000?—(Mr. *Barstow.*) I should think it was highly unlikely that at the time the arrangement was made anybody had any conception of the amount of orders which would be placed in America.

2139. We get back then to the point that you are no doubt aware we have had before us, that the question of a sliding scale at that time was never taken into account at all?—At any rate it formed no part of the agreement. It dropped from 2 to 1 per cent.

Mr. *Jowett.*

2140. With respect to offers made by other firms in America to supply explosives and munitions separately from Messrs. Morgan, were they turned down or declined because Messrs. Morgan were not their agents?—His Majesty's Government reserved full liberty of action to place contracts otherwise than through Messrs. Morgan, but in point of fact a large number of applications or offers to place contracts were declined and the applicants were referred to Messrs. Morgan.

2141. And some of the offers which were declined were cheaper than Messrs. Morgan's?—That allegation has sometimes been made, but I do not think it has ever been substantiated.

2142. Are there any records of the offers which were made apart from Messrs. Morgan, and which were refused because Messrs. Morgan were not the agents, or because they were not involved in it?—I think I had better ask the honourable member to address that question to Mr. Dannreuther.

2143. Shall I repeat it? Are there any records of the offers made by American firms apart from Messrs Morgan's agency which were rejected because the firms concerned declined to do their business through Messrs. Morgan's agency?—(Mr. *Dannreuther.*) That would date back to the War Office time, and I am not sure whether you should not rather get that from the War Office. I think there were one or two questions of that sort, if my recollection is right, dating back to the War Office time and long before the Ministry of Munitions. In the early days one or two people made offers and they objected when they were told that they should make them through Messrs. Morgan. Mr. D. A. Thomas went over there and reported that on his arrival in New York he was overwhelmed by brokers and dealers anxious to place contracts without the mediation of Messrs. Morgan, but he reported that in no single case did there appear to be any responsible contractor behind the broker or dealer, and that in no single case did he find any responsible firm which had substantial reasons for not dealing through Messrs. Morgan. (Sir *Henry Gibson.*) Mr. Thomas, whom you refer to, is the present Lord Rhondda?—(Mr. *Dannreuther.*) Yes.

2144. Whether they had reasons or not, it did not matter if they could supply the stuff; if in point of fact there were firms which could supply the materials and supply cheaper than through Messrs. Morgan's agency, why should they be refused, whatever their reasons were, whether they were good or otherwise, for not wanting to deal through Messrs. Morgan?—I do not know that there were in fact offers at cheaper prices from responsible firms which did not come through Messrs. Morgan.

2145. What I am anxious to know is whether there are records of the offers which were made?—There would not be in the Ministry of Munitions; there might be some with the War Office. I do not know whether you would like to raise the point when you have the War Office accounts before you.

Chairman.

2146. Mr. Barstow, there is no reason why this agreement should not be printed on the notes, or would you rather that it was not?—(Mr. *Barstow*). I can think of no reason why it should not be printed.

Sir *Charles Henry.*

2147. There is one other point: If you had not paid Messrs. Morgan this 1 per cent. for negotiating contracts, you would have had to pay Messrs. Morgan or some other bankers a certain amount for making payments on account of the British Government as bankers?—As bankers, no doubt.

2148. You would have to pay one-eighth or a quarter of 1 per cent. for that anyhow?—Yes.

2149. Was this contract or arrangement entered into with the New York branch of Messrs. Morgan's firm direct, or were the London firm of Messrs. Morgan connected with it?—The agreement is signed on behalf of Messrs. J. P. Morgan and Company by one of the partners of the American firm.

2150. And the London house had nothing to do with it?—Their London house of course acted as their agents and as the link between them and the War Office and Ministry of Munitions throughout the currency of the contract.

2151. The negotiations went on on behalf of J. P. Morgan and Company through their London house?—Subsequently, but I believe the actual contract was negotiated direct with one of their partners.

FINANCIAL RELATIONS WITH CONTRACTORS: ADVANCES ON DELIVERIES.

Chairman.

2152. We begin with paragraph 16 of the Comptroller and Auditor-General's Report on page 11. The Committee bears in mind that a good many of these things are very old stories, and there is nothing in paragraph 16 which is only preliminary; but what about these inaccuracies which are referred to in paragraph 17, Mr. Dannreuther?—(Mr. *Dannreuther.*) That is the same firm we have been dealing with all the way along. I believe there were inaccuracies, but there were inaccuracies on both sides, and I think Mr. Garnsey would be able to show, and we have in fact already replied, that on a proper balance-sheet at the time we were in debt to the firm rather than they in debt to us.

2153. Is that so, Mr. Garnsey?—(Mr. *Garnsey.*) I do not know whether that was so at that date, but the most recent statement I have seen, and I think I reported this at the last meeting, showed that we were indebted to the firm in question to the extent of a million and a quarter.

2154. Have you got the answers to your inquiries on this matter yet, Sir Henry?—(Sir *Henry Gibson.*) Yes, I may say that I wrote a letter on the 6th December, and I received a very long reply on the 16th of last month. I have not had time to go very much into the various statements, but I think the Ministry of Munitions did admit that they had failed to take into account the standing advance of £3,250,000 to which I drew attention. This was a long letter raising many points, and I have got an equally long reply on the various points. The main point was that they paid accounts without having checked the deliveries, and I take it the Ministry of Munitions claim that they cannot check them. (Mr. *Dannreuther.*) We have always

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

always made advances to these firms. (Sir *Henry Gibson.*) I also drew attention to the fact that the Ministry omitted to take into account very large advances. (Mr. *Dannreuther.*) In making a review of the general position, that is so. (Mr. *Garnsey.*) In point of fact, Sir Henry, our reply shows that there was something on the other side of the account which had been forgotten. (Mr. *Dannreuther.*) That is what I tried to explain. (Mr. *Garnsey.*) Which for practical purposes puts us on the right side. (Sir *Henry Gibson.*) That is admitting the accuracy of the firm's statement; you have not verified it. Practically all this is accepted on statements made by this firm. (Mr. *Garnsey.*) No; the particular point made there is quite correct, namely, that we had omitted in that statement to notice a sum to the extent of £3,000,000 or over, but in point of fact there was also a sum omitted to an even greater amount on the other side of the account.

Mr. *Leif Jones.*

2155. Have you any reason to suppose that all the sums on either side of the account have even yet been discovered?—I think I may say in that connection that we have had a considerable staff engaged on the reconciliation of these accounts now for two or three months. It is nearing completion, and I hope in the course of the next week or so to be able to say that every item has been agreed with the firm, and we will get these inaccuracies no longer.

2156. That account will be cleared up?—It will.

2157. What about the similar errors which appear to exist in other cases, mentioned at the end of the paragraph?—I am afraid I do not know these cases.

2158. Do you know those, Mr. Dannreuther?—(Mr. *Dannreuther.*) I am afraid I do not.

2159. How many cases are referred to in that paragraph, Sir Henry? It may refer to one of the other big armament firms? (Sir *Henry Gibson.*) I think the next paragraph deals with another case of a similar character, and we investigated also some smaller cases. (Mr. *Dannreuther.*) That is the firm dealt with in the next paragraph; advances have to be dealt with in connection with all these firms with whom we have big open accounts.

2160. But you dealt with the firm in the first part of the paragraph, and it has taken from two to three months to make up that account, and you are nearing completion, but I understand from Sir Henry Gibson's paragraph that similar errors exist in other cases. Is any progress being made with these other cases?—The other biggest one has been cleared up. Current accounts in the case of the sister firm, if you might call it so, the other very big armament firm, have been agreed, and a settlement effected, in fact we are paying their bills now on a 100 per cent. basis.

2161. May I take it then that that paragraph has been cleared up, and that it will not have to appear next year?—(Mr. *Garnsey.*) Except for this one particular case, which is not yet completed.

Sir *Charles Henry.*

2162. The paragraph is headed "Advances on deliveries." Is that correct? Should not that be, "Payment on capital account of deliveries"? Are not these payments on account, and not advances?—(Mr. *Dannreuther.*) They are payments on account making up 80 per cent. on the particular bills. With these big firms you have to take the whole position into account.

2163. You do not make payments in advance of delivery?—No, it is 80 per cent. on account.

CLAIMS AGAINST CONTRACTORS.

2164. With regard to paragraph 19, that is the same matter, I suppose, as was dealt with before?—It is, so far as regards the delay. (Sir *Henry Gibson.*) That has been dealt with in the Memorandum put in.

Chairman.

2165. Is the loss of interest very large?—(Mr. *Dannreuther.*) I doubt it. We also owed money on the other side; we were in arrear with payments.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

2166. And you do not pay interest?—No, the firms were continually complaining to us of our delays in payment, and they could not claim interest from us, but whether it would be as much on the one side as the other it would be impossible to say.

Mr. *McKinnon Wood.*

2167. Is there not a considerable loss to the Exchequer when accounts are delayed in settlement for a very long time?—It depends in which way the accounts are; if we are in arrear in paying them, there may be a gain to the Exchequer.

2168. If the account is not settled then the profit is not determined, and the old Munitions levy or the new Excess Profits Tax cannot be charged, and the Exchequer lies indefinitely out of its money?—(Mr. *Garnsey.*) I do not think it would quite work in that way.

2169. For example, supposing a firm was doing business with you from the beginning of the year to the end of 1915, and now in the year 1918 the profits of that account are not settled, your accounts are not settled with them, and they have not been able to draw up a balance sheet, you are lying out of a very large sum of taxation that you ought to have received on account of that period?—Would it not work in the opposite way in point of fact? Because they had not paid us the money due they would be in a better position to pay the Exchequer the Excess Profits Duty.

2170. That will not do at all, because they would not have the charge made upon them?—That could not make any difference, if I may say so, for this reason, that they would carry in their books the liability owing to the Ministry of Munitions, and it makes no difference whether they have paid it or not; they still show exactly the Excess Profits due to the Government. It makes no difference.

2171. I cannot follow that.

Sir *Charles Henry.*

2172. If they have not agreed the amount with the Ministry of Munitions what occurs? They defer issuing their balance sheets entirely?—Not entirely surely, because, in my experience, it was this: The firm estimates as nearly as possible what its liability to every Government Department is, and on the strength of that a balance sheet is issued. I have seen many of them myself on that basis, and on the strength of those balance sheets the liability to Excess Profits Duty is estimated and paid, at all events provisionally.

Mr. *McKinnon Wood.*

2173. Would you agree as an Accountant that you would naturally make a conservative estimate under those circumstances?—I would like to see that the estimate is not on the low side. I would like to see that we were sufficiently reserved for in our liability to the Ministry.

2174. But you would not wish to declare an amount of profits you might never realise and pay tax on that?—I think you make take it that business men, as a whole, go on the conservative side in drawing up a balance sheet.

Mr. *Leif Jones.*

2175. As a matter of fact, the whole of the Munitions levy was greatly delayed because the accounts were not settled?—Not for this reason—not because the accounts were not settled with the Ministry of Munitions or other Government Offices. It was because the Staffs of the various firms were not able to prepare their own balance sheets. It was not delayed in the slightest degree, except in perhaps one or two instances like the largest armament firm, because they had not agreed their accounts with the Ministry of Munitions.

2176. They gave up the attempt in the end, and they will never be made; they are being dealt with as Excess Profits?—I do not follow.

2177. The Munitions levy will never be known with regard to a great many of these firms?—In every case up to the end of 1916.

4 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *McKinnon Wood.*

2178. We had a great deal of evidence before us last year, when, I think, you did not appear, showing what a very minute amount of Munitions levy actually had been collected, and we were then told that the pre-war standard in many cases had been taken?—That has nothing to do with the fact that they had not agreed their account for materials supplied by the Ministry of Munitions; it has no relationship to that in the slightest degree, except in the case of one or two of the larger firms.

2179. I was talking about the loss to the Exchequer arising from the fact that these accounts have gone on for two or three years unsettled and unagreed, and surely it has that effect?—May I see if I understand you correctly? You say that because we have not charged our contractors with the amounts for materials supplied by the Ministry therefore the Exchequer has been out of pocket to the extent of the interest upon any sums which have been lying outstanding for any time?

2180. I am not talking about such a trifling matter as interest, but about the Munitions levy and the Excess Profits Tax?—With great respect I suggest that it has nothing whatever to do with it.

Sir *Charles Henry.*

2181. May I put this question? As an Auditor you go in to audit the books of X firm, a large munitions firm, and their principal account is with the Ministry of Munitions. Would you be disposed to give a certificate for that audit unless you had some knowledge that the account had been agreed with the biggest firm dealing with the Ministry of Munitions?—It depends entirely on the size of the account, of course.

2182. I do not think I need specify the account, but it is a very big one?—I have suggested that in these cases it did in point of fact delay the publication of the accounts.

2183. It delayed the publication of the accounts and the production of the balance sheet by the firm, and therefore the determination of the Excess or Munitions Profits?—Yes, in the larger cases; but how far, if at all, it affected the determination of Excess Profits duty or Munitions levy I cannot say.

Mr. *McKinnon Wood.*

2184. I would like to make one comment on one other thing. The Comptroller and Auditor General has pointed out that there was a big mistake to the disadvantage of the Munitions Department in a particular case, and the answer was that that was so, but after all it did not matter very much, because there was another big mistake, which nearly cancelled that on the other side, but that is not very comforting to my mind, because if there were two blunders which cancelled one another in one case, there might be two blunders which aggravated one another in another case?—Do I understand that this is in relation to the Munitions Levy?

2185. No, I have passed from that?—It has to be admitted that there was a mistake.

2186. And it is not much comfort that there was a blunder on the other side: that merely means that there were two blunders?—I quite agree that there was a mistake on the other side.

2187. But it might have been on the same side. might it not?—This is extremely ancient history, and I should be very sorry indeed to think that such a blunder could occur to-day.

2188. It is always ancient history that we investigate in this Committee?—I am afraid it is ancient history we have been investigating.

Sir *Charles Henry.*

2189. Coming to up-to-date history, at the present time you have a better system of accounting, and you keep an Account Current, up to date with these different contractors?—Yes, that is so.

2190. On this Account Current is interest charged on the debit and credit side, or is no interest charged at all?—Only in cases where a loan has been made at interest.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

2191. Before we leave that paragraph, Sir Henry, you say "The loss of interest involved in regard to past transactions must be very large"; did you form in your own mind any estimate of the loss of interest which had occurred?—(Sir *Henry Gibson.*) No, but I say again that we only test a limited number of cases.

2192. Could you put a figure upon it?—No, I am sorry I cannot give a figure, but we say it must be very large.

2193. You have heard nothing to shake your view that the country as a matter of fact has lost large sums through this failure to render accounts?—I adhere to what I have stated here.

Sir *Henry Craik.*

2194. You say, Mr. Garnsey, that you would be sorry to think such a blunder might occur at present; can you give us any of the grounds you have for thinking that such an error is less likely to occur now than in the past?—(Mr. *Garnsey.*) Yes, for this reason: in those days, as has been already stated to the Committee, there were no books of account which really enabled an accurate check to be made on the statement tendered by the contractor. To-day we have such books.

2195. It is in these you trust and upon which you rely for avoiding such an error at present?—Yes.

2196. And you think that this is a sufficient basis for your reliance?—I am hoping it is. We are improving the whole time, but I am never going to say that a thing is sufficient.

INTEREST ON BANKING LOANS.

Mr. *Leif Jones.*

2197. (To Mr. *Garnsey.*) With reference to paragraph 20 I would like to ask whether you accept the statement made by the Comptroller and Auditor-General that it is a matter of importance that large claims of this nature should be preferred as they fall due?—Yes, there is no doubt about that.

2198. And they are preferred as they fall due quite irrespective of the negotiations in progress about capital?—Yes. In the particular case referred to here in point of fact the interest to the 31st of March, 1918, was claimed within two days.

2199. How soon was it paid after the claim was made?—I understand it was paid on 22nd April.

Mr. *Arnold.*

2200. It did not strike me as being very expeditious to put the claim in within 20 days?—Some are very difficult calculations; it is one of the largest in the whole lot, and it depends on the dates when deliveries were made; it is not always a straightforward interest calculation.

2201. What do you think the average period within which a claim for interest is made would be?—I could not give an average, but a good proportion, I think, are claimed within a week, or the claims are sent out within a week.

PROVISIONAL PRICES.

Chairman.

2202. (To Mr. *Dannreuther.*) As to paragraph 21, Mr. Dannreuther, the Committee on National Expenditure has been into all this?—Yes.

2203. Have you any further statement to make to us? As to the last figure of £70,000 at the end of the paragraph, has that been repaid yet?—As far as I understand, I do not think there was any actual overpayment. We only paid 80 per cent. on the statements put in by the contractors, and I do not think there was an actual overpayment; it simply means that the provisional prices were higher than the final prices we were able to get by negotiation, and that is rather a compliment to the negotiators, because we tried to put the provisional prices low to start with.

2204. Is

4 *June* 1918.] Sir H. GIBSON, C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry.*

2204. Is this the same firm?—It is.

2205. This firm's account seems to me to require a great deal of care, and I understand Mr. Garnsey is making a special point of it?—(Mr. *Garnsey.*) Yes, we have a considerable staff there, which has been engaged for the last two or three months; it is really a fairly hopeless muddle, but it is a muddle on both sides.

2206. They kept their books as badly as they did at the Ministry of Munitions?—I would not say as badly, but there is a difficulty on their side as well as on ours, and that muddle is being cleared up. The last report I had was that every transaction up to the 31st of March, 1917, had been agreed, and I am hopeful that within the next week or two we will have cleared everything to the 31st of December, 1917, which shows that some considerable progress has, in fact, been made.

2207. Would you feel justified in giving this Committee an assurance that the Treasury or the State will not suffer at all by this great mixture or great complication in the accounts of this firm?—That is my duty—that is what I am trying to do. I never like to give an assurance, but that is what I am trying to do.

2208. I suppose you will be able to report whether you are successful or not when you have finished?—Yes. (Mr. *Dannreuther.*) I have appealed personally to the Financial Director of that firm to help to clear up their accounts.

2209. They are not showing any great willingness?—They are short of staff, I believe, and they have all sorts of excuses, but I have appealed to them specially to press on their side of the account.

2210. Will Sir Henry Gibson be able to give a Report ultimately to the Public Accounts Committee which will satisfy us or otherwise?—(Mr. *Garnsey.*) I propose that a copy of my Report should go to Sir Henry Gibson, so that he can see exactly what has been done. (Sir *Henry Gibson.*) I shall be able to see the result of the work and to report next year.

2211. Is it within your power, Sir Henry, to make an examination of the firm's accounts yourself, so as to satisfy yourself about them?—I think it would be within my power; I should probably have to make arrangements with the firm, but I do not think it will be necessary to do such a thing, inasmuch as, as a rule, where the Department itself does the work, I do not find it necessary to go over the ground again. We had the same case arising on all these National Factories all over the country, where the Ministry of Munitions send their own accountants down, and in the same way if the Admiralty, for instance, sent down to examine a contractor's books, I would not do so.

2212. I would not bother so much about the National Factories?—It is the same with contractor firms generally; in all these Admiralty contracts, where the contracts are on the actual cost plus a percentage basis, the Admiralty accountants go down and examine the books, and, that being so, it seems to me rather unnecessary that any of my staff should go too. The contractors do not care about having two sets of accountants from two different departments.

2213. But in connection with this great complication which has arisen with this large firm we have been dealing with, I think you should be in a position to satisfy yourself that the account has been properly adjusted, so that the State shall not be put to any loss?—Certainly, that will be so; in a very extraordinary case like this, if it was necessary, I should be able to send some of my staff down to look into the books. (Mr. *Garnsey.*) May I suggest that one of the difficulties which we meet with in the course of our reconciliation arises owing to the fact that a large number of the prices of the contracts are not fixed? I believe there are two and a half million pounds' worth of advances on account of those contracts, and you can see the difficulty in getting an absolute agreement when, in point of fact, the contract prices are not fully settled.

2214. When you say advances, you mean payments on account?—Yes. (Mr. *Dannreuther.*) I think the prices have been settled affecting 7½ million pounds,

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

and I think the balance are being seen to very rapidly by the firm, so that they may be cleared.

Mr. *McKinnon Wood.*

2215. Would you agree, Mr. Garnsey, that after all, when the accounts are not properly kept at the time, it will be impossible for the ablest accountant to satisfy himself subsequently that they are absolutely correct?—(Mr. *Garnsey.*) It must be so.

2216. He must do his best, and I am a little more pessimistic than Sir Henry. I do not think that he could give us an assurance that the Treasury have not lost, however much he looked into the accounts. My experience of accounts is that if they are not properly kept at the time, it passes the wit of man to be positive that they are correct in the end, however carefully you look into them, unless you have outside material to appeal to?—(Sir *Henry Gibson.*) I will be able to assure you that the best has been done under the circumstances, and that an agreement has been arrived at which seems fair.

CAPITAL ADVANCES IN RELATION TO EXCESS PROFITS OR MUNITIONS LEVY.

Chairman.

2217. (To Mr. *Dannreuther.*) Have you anything to say on these paragraphs, Mr. Dannreuther, beginning with 22?—On those paragraphs I have had two short memoranda prepared, one by Sir John Mann and one by the Controlled Establishments Division, which I thought would be of interest to you, and I would like to hand them in. There is not much arises upon them, but they do give the history (*handing in the same*).

Vide Appendix No. 14.

Mr. *Arnold.*

2218. I would like on paragraph 22 to ask Mr. Barstow a question. What is the legal limit, if any, to the power of the Inland Revenue or the various Government Departments to do what I have described as a deal with regard to excess profits? I am speaking of the kind of thing set forth in paragraph 22; what is the limit of this sort of thing? Have they the power to say "All right, you need not pay excess profits duty at all if you do so and so"? Have the Inland Revenue authority for that?—(Mr. *Barstow.*) No Department other than the Inland Revenue has any power to make a bargain dealing with revenue collectable under statute with a contractor or private firm. It would be safer if the honourable member would make that inquiry on the Revenue accounts of the Inland Revenue representative, but I might go so far as to say that it seems clear that they have the power of saying to a firm, "We accept so much as your aggregate payment for the year." That is inherent in their duties.

Mr. *McKinnon Wood.*

2219. Upon that point may I ask a question; that is the true present position as I take it?—That was a general question Mr. Arnold put to me as to the powers of the Inland Revenue.

2220. But I wanted to ask you this question: Was it not the case before the Munitions levy was absorbed in the Excess Profits Tax that the Minister of Munitions could make these arrangements as to depreciation and as to the use of money due to the State for development purposes?—That is so.

2221. Without the Inland Revenue?—That is so.

2222. And as a matter of fact was it not the case that the Inland Revenue really accepted the arrangements of the Ministry of Munitions Department with regard to special agreements as to depreciation?—That is so. The contractor might be doubly liable; he might be liable under the Munitions of War Act to pay Munitions levy, and liable under the Finance Act to pay Excess Profits duty. Those Acts were administered

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MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *McKinnon Wood*—continued.

by the two different Departments and under different sets of rules as to depreciation. It was agreed by the Chancellor of the Exchequer that in cases in which the Munitions Ministry had agreed a writing down for depreciation under the Munitions of War Act for the purposes of the Munitions levy, that depreciation would be accepted by the Inland Revenue in calculating the amount of Excess Profits duty which might be leviable.

Mr. *Leif Jones.*

2223. Before you leave that subject, you said that but have the Inland Revenue the right to sanction the the Inland Revenue had inherent in their powers the right to make arrangements of the kind suggested; making of such arrangements by another Government Department? Is that inherent in their powers?—I should find it difficult to answer that in the affirmative; I think the Inland Revenue would not themselves feel that they would be authorised to accept the fiat of any other Government Department not authorised by statute as to depreciation, or as to any point within their province as the Revenue collecting authority.

2224. Was there anything in the Munitions of War Act authorising the making of such arrangements by the Munitions Department?—The rules under the Munitions of War Act, allow full powers, or at least very large powers, to the Ministry of Munitions to make allowances in respect of depreciation and so on in regard to the collection of the Munitions levy.

Mr. *Arnold.*

2225. Might I ask Mr. Barstow, seeing that the Inland Revenue witnesses have already been before the Committee, whether he could put in a note on this question, and say, bearing on the question put by Mr. Leif Jones, what precisely is the legal limit under which this kind of arrangement can be made, for instance by the Ministry of Munitions, and accepted by the Inland Revenue without the Inland Revenue themselves knowing about them?—(Mr. *Dannreuther.*) That cannot be done now.

2226. To what extent was it done then?—Under the Munitions levy it was done. When the Excess Profits duty was put on it was stopped, but there was an interregnum when it was done. When Excess Profits duty was put on, it was with retrospective effect.

2227. You mean that the ordinary arrangement made by the Ministry of Munitions in fact was in relation to capital expenditure, or whether capital expenditure would be finally made as between the firm and the Government, but that none of these arrangements are made which have any reference to excess profits?—No, not without the consent of the Inland Revenue. We might make an arrangement under which we might give a contribution, and if the contractor eventually gets from the Inland Revenue a write-off we expect that he will hand back what he gets to us in exchange for the contribution we have made, but we do not interfere with the Inland Revenue in their assessment or collection of the Excess Profits duty.

Mr. *McKinnon Wood.*

2228. Can you tell us if the Munitions Department is still superintending the collection of the Munitions levy for the period before the absorption of the Munitions levy in the Excess Profits tax, or if the whole thing is handed over to the Inland Revenue now?—My impression is that it has gone over entirely to the Inland Revenue; they have taken over all the staff who were working for us.

2229. But they will have to charge, of course, that Munitions levy right up to the date when the alteration was made?—I think that is so.

2230. And they have taken over the estimation of the amount and the assessment?—Yes.

Mr. *Leif Jones.*

2231. Are they not doing it on the Excess Profits duty basis now?—(Mr. *Watson.*) Up to the 31st December, 1916, the assessment was on the basis of the Munitions levy in the case of certain controlled firms.

2232. Are they making that estimate now?—Yes, the staff taken over from the Ministry is actually engaged on that work now.

2233. They had to pay whichever was the larger, the Excess Profits duty or the Munitions levy; so they had to make both?—Yes.

2234. Are you quite sure that they have not given up making the Munitions levy on the ground that it was not worth the trouble of doing?—I am not sure on that point. (Mr. *Garnsey.*) I am quite sure about that; I have seen within my experience that they are making up both, and taxing on the greater.

CAPITAL EXPENDITURE ON NATIONAL FACTORIES.

Chairman.

2235. (To Mr. *Barstow.*) I want to ask Mr. Barstow, referring to paragraph 26, whether all these various excess capital expenditures were sanctioned by the Treasury?—They were all reported to the Treasury after having been incurred, and a general sanction has been now given by the Treasury without the Treasury taking any responsibility on the merits of the question.

Mr. *Leif Jones.*

2236. What does that amount to? You say that after the money has been spent they receive the sanction of the Treasury without the Treasury taking any responsibility for what has been done?—It amounts to no more than an authority to charge the amount against the Munitions Vote.

2237. Why does the Treasury grant such an authority? If it is not prepared to take any responsibility, on what principle is the Treasury acting when it says, "You have spent this money, you have done it on your own responsibility, but we sanction it because you have done it"?—We give covering authority, otherwise the whole of the amount would have to be excluded from the account for the year, and Mr. Dannreuther could not sign his account as accounting officer. It does no more than enable the Ministry of Munitions to bring to account in the year under review the charge that is incurred.

2238. You did not investigate in any way the reason of the increased expenditure?—General reasons are given to the Treasury at the time, such as that it was necessary to increase the output of Munitions, but the Treasury does not investigate closely these large excesses of capital expenditure during the war.

2239. I would like to take No. 2; in the second case mentioned, where the estimated cost was £632,800 for a filling factory, and the actual expenditure to 31st March, 1917, was £2,200,000; may we have the history of that?—(Mr. *Dannreuther.*) If I may say so, I do not think that estimate was ever put to the Treasury; the Treasury told us that we could have block sums of money to spend on different types of factories: filling factories, projectile factories, and shell factories. That must have been an internal estimate, but the factory has grown, and it is the very biggest of all the filling factories.

2240. This £632,800 was your own internal estimate?—It was an estimate made inside the Ministry.

2241. I understand from Mr. Dannreuther that the Treasury had nothing to do with sanctioning that estimate; they had not the estimate before them at all, I understand?—(Mr. *Barstow.*) At no time, I think. It was reported to the Treasury on the 27th March last as having been incurred.

2242. Do you mean that that was the first the Treasury heard of it?—No, the fact that a total expenditure of £2,462,500 was expected at this factory. I beg pardon; a statement was made in February, 1916, of an anticipated total of £632,800, so that the Treasury had that before them in February, 1916.

2243. When

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

2243. When was the factory begun, Mr. Dannreuther?—(Mr. *Dannreuther.*) In the end of 1915.

2244. And you went ahead with it without consulting the Treasury at all?—The Treasury told us we would get a large sum, say £10,000,000, to spend on projectile factories, and so much to spend on filling factories. The original estimate for filling factories was on the low side. I remember going to Sir Eric Geddes at the time; it was before the Somme and before the big gun programme, and the factories proved much too small; they had to be doubled and trebled, and you cannot recognise them as the original proposals.

2245. Are we going to get anywhere the history of the making, the unmaking, and the remaking of this factory? Will it ever be written anywhere except in the total expenditure?—It is difficult to say. A lot of experiments were tried there.

2246. Did you say the total cost has been £2,460,000?—We have reported to the Treasury the complete figures; these figures here are only to the 31st March, 1917.

2247. Could you give me an estimate of what it would cost you to put up to-day a factory exactly similar to this one in all respects?—I am afraid I could not. Shall I try to get you one?

2248. Could you give it within a million? What I am anxious to get at is what has been the cost of the experimental work that has been done?—At the start?

2249. Yes?—Shall I try to find out for you, and let you know? I have not the slightest idea.

2250. I should be extremely interested to know, and I do not know that it is mere curiosity?—I should not think it would be a very big part of the total expenditure.

Mr. *McKinnon Wood.*

2251. These are not cases of an estimate being exceeded in the ordinary sense?—Not at all.

2252. It is not that you estimate a thing at half a million and the work you estimate for costs a million, but it is quite different work, additional work, and so on?—Quite different.

Mr. *Leif Jones.*

2253. There was a great deal of scrapping?—The mistake made was that we did not report to the Treasury at sufficiently frequent intervals; we did for the explosive and ordnance factories and for the projectile factories, I think, but we waited to include the filling factories in the complete schedule we sent to the Treasury when our powers were restricted down to £50,000.

2254. The point of my examination, such as it was, was to try to find out what had been the cost of the false starts at the beginning, but I daresay it is not very important; I do not dispute that the experimental things had to be done?—I remember there were a good many comments made at the time that factory started.

Sir *Charles Henry.*

2255. Was this carried out by the Office of Works?—No, the others were.

2256. Was this work carried out on the cost and percentage basis, or by taking estimates from contractors—the majority of the work?—The majority were put up by the Office of Works, and I think they avoided cost and percentage as far as possible.

Mr. *McKinnon Wood.*

2257. I suppose there was a great deal expended gradually as you got experience for the purpose of securing the safety of the workers and health of the workers?—Certainly. I think they found the solution or the remedy for the T.N.T. diseases at this particular factory. That means a complete change in the ventilating system, and so on.

2258. Were there not lots of arrangements made for safety in the mechanical filling of the shells, which reduced the risks to the people concerned enormously?—Yes.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

2259. I had to look into some of the scrapping which had gone on in this factory, and I thought it was fully justified, so far as I could judge from the evidence given to me?—I think that is so.

Mr. *Jowett.*

2260. Is it possible to give to the Committee the total cost of all the factories and the total amount contributed to the extension of other factories not possessed by the State?—Yes, that information has already been presented to the House in the First Report of this Session of the Select Committee on National Expenditure. I gave them the figure, which is £66,000,000.

ASSISTED CONTRACTS: AUDIT OF CAPITAL EXPENDITURE.

Chairman.

2261. (To Mr. *Dannreuther.*) As to paragraph 27, Mr. Dannreuther, how much do those arrears of unaudited expenditure amount to?—The truth was that we suffered from lack of accommodation and staff. We have recently taken over a new house for the Factory Audit and Cost Department, and that is the place to which we are sending all the accountants we are getting. The matter is well in hand now, and an honourable Member, Mr. Currie, M.P., is in charge. We have gone slowly, but the expenditure has gone up. At the 31st of March, 1917, we had audited six millions out of fourteen millions, and the latest report is twelve millions out of thirty-one millions authorised, but I think only twenty-six millions advanced.

Mr. *Leif Jones.*

2262. That is not much of an improvement; six millions out of fourteen millions is nearly as good as twelve millions out of twenty-six millions?—With the staff at work it would have taken a couple of years, but since we got accommodation in a new house we have taken at Halkin Street for the staff, we have added to it as rapidly as we can, and I hope that within six months we shall be up to date.

Sir *Charles Henry.*

2263. There is one point I do not quite understand in the middle of the paragraph, "and the Accounting Officer has obtained credit for them in his Appropriation Account"?—That is true; under the narratival system the payments were written off and charged to the Vote, but they are now under our new system being written back on to our live records.

2264. Are the sums an Appropriation in Aid against the Vote or a deduction from the amount?—(Sir *Henry Gibson.*) It only means that although they were advances they had been absolutely charged to the subheads of the Vote concerned. We had that question up last year.

2266. I do not follow it then?—If they had not been charged to the Vote the Accounting Officer would have been responsible for them until a fully audited certificate of expenditure was furnished; as they have been charged to this Account under the specially authorised arrangements, they are included in whatever the particular sub-head is, and they are finally charged against the account in the Munitions Appropriation Account for the year. (Mr. *Dannreuther.*) If we have any assets we are now writing them back on to our record of assets.

INVENTORIES OF MINISTRY PROPERTY.

Chairman.

2267. (To Mr. *Dannreuther.*) Is that work which is referred to in paragraph 28 going on, Mr. Dannreuther?—Yes, there is not very much in that. We have made a separation of the work; the audit has been

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

been separated and put under a separate Controller, while the inventories remain with the Finance Department. Progress is being made. It is partly dependent on catching up the audit arrears in order to reconcile the two.

2268. It is in hand, and making real progress?—Yes, and the Department of Engineering is assisting.

Sir *Charles Henry.*

2269. It will be absolutely necessary if Sir Worthington Evans is to produce his balance sheet?—Yes.

INADEQUATE FINANCIAL CONTROL.

Chairman.

2270. (To Mr. *Barstow.*) Turning to paragraph 29, Mr. Barstow, as to (*b*), was the Treasury sanction asked through the Emergency Committee on that question?—No, I think this case has not been before the Treasury yet.

2271. Mr. Dannreuther, do you know?—(Mr. *Garnsey.*) Covering sanction has since been received by Treasury letter of the 1st of May, 1918. Those are my notes. (Mr. *Dannreuther.*) The mistake here was really a formal one. The then assistant to the Assistant Financial Secretary gave financial sanction without realising that Treasury sanction was necessary, because some part of the cost was for the purchase of land. Apart from that purchase of land, it was all within the Ministry's powers.

2272. Upon (*d*) it is stated that "The Financial authorities of the Ministry were apparently unaware of the extent of the commitments of the local authority who have extended the equipment of Technical Schools *into an instructional factory*"?—The Treasury *have* agreed to expenditure upon training up to so much per head for maintenance expenses only. As a matter of fact, the actual cost, including capital expenditure, has been within the limit laid down by the Treasury. The Board of Education take responsibility and certify for all the expenditure, and I am afraid that as the Board of Education, another Government Department, were acting for us, the training section did not realise perhaps that they should refer every case to the Finance Department if they kept within the limits of expenditure approved. Since then we have taken steps to have all such proposals referred, and to report *them to the Treasury if they are of importance.*

2273. Then the commitments of the local authority were supervised by the Board of Education?—They were; we merely paid on their certificate, and they concentrated on two or three of the larger areas where *the local education authorities had made a good job of* the work. I do not think there is anything wrong at all.

Mr. *Leif Jones.*

2274. With regard to (c), I should like some more details about that; it was perhaps the worst case of the lot?—There was very great urgency in view of the congestion on the railways and at Woolwich to get a local bonding house over there, and this Department asked the contracting firm to put up a bond; I am told the price is really reasonable. It was necessary to use material which was left over from a certain shell shop, the site of which was changed. We thereby avoided scraping material, and the bond was designed to use up that material. It has been very successful.

Chairman.

2275. What is bonding shell?—It is put in there for inspection; it goes under lock and key and belongs to us.

2276. Warehoused, in fact?—Yes, and they paint and finish it up there; it passes into the Ministry's property for inspection.

Mr. *Leif Jones.*

2277. Is it not true that a much simpler building at half the cost would have served the purpose?—That is the *obiter dictum*, after the event, of one of the Financial Advisers then in the Department who is not there now. The Controller of the Inspection Department and the Director of Factory Construction, who *was partly responsible, do not agree in that opinion.*

2278. He seems to have conveyed his impression to the Comptroller and Auditor-General?—It is wisdom after the event. The land is ours and the property is ours, and I believe it is a very fine property.

2279. *In spite of that the firm were informed that* the cost was considered extremely heavy. Are you writing a second letter to say that you have revised that opinion?—I am afraid without reference to the papers I cannot say, but I have read the papers and I know that the Inspection Department and the Director of Factory Construction hold that it was quite a reasonable expenditure, because they wished to use up certain material which would otherwise have been scrapped.

2280. You have a number of these bonding warehouses in different parts of the country?—A great many of them.

2281. Have you not any comparison of the cost per shell received here with other warehouses?—It would depend on the nature of the shell, and whether you have to have railway lines through the bonds or not—whether it is heavy shell or not.

2282. You have not means of comparing the cost?—It would be very difficult. This actual bond is in one of the biggest shops of one of the biggest of our firms, the one we have been dealing with fairly frequently.

2283. If no comparison can be made with other shops, on what basis do you say that the cost of this one was reasonable?—The suggestion is that we might have had a much simpler thing?

2284. Yes?—The war has lasted a long time, and they say this bond is doing excellently, and that it has been worth while having all the elaborate expenditure with a railway through, with cranes and other machinery for dealing with the shells. The design was specially arranged to utilise materials which were on hand which would otherwise have had to be scrapped.

Chairman.

2285. I want to ask a question about that. Is it worth while spending £100 on a building in order to save scrapping £25 worth of stuff? That is the inference you might draw from that statement, that in order to save scrapping you built a more expensive building than you need have built?—(Sir *Henry Gibson.*) You ought to have had it at a reduced price if you saved scrapping.

Mr. *Leif Jones.*

2286. Why were these documents not before the Comptroller and Auditor-General, because they might have modified his conclusion? If this is really a satisfactory warehouse for bonding shell, it is rather a pity that the Comptroller's Report should give the impression to the public that there has been this waste of money, and it comes from your own Department?—(Mr. *Dannreuther.*) This particular Minute (*which was read to the Committee but not recorded by direction of the Chairman*) was before the Comptroller and Auditor-General. (Sir *Henry Gibson.*) I do not say that the cost was excessive. The point is that the Ministry did not get an estimate.

2287. I think you have clearly proved that if they had got a good building for the money it is rather by accident than otherwise.

LACK OF CO-ORDINATION BETWEEN BRANCHES.

Sir *Charles Henry.*

2288. With reference to the contract for alcohol mentioned in paragraph 30, what is the duty on this spirit?—(Mr. *Dannreuther.*) It is something very high now.

2289. But at the time?—(Mr. *Watson.*) I rather think it was 19s. 6d., but I am not quite sure. This was free of duty.

2290. The War Office bought duty-paid alcohol and the

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

the Trench Warfare Department bought it duty free?—(Mr. *Dannreuther.*) The Trench Warfare Department did not realise at that time that alcohol was an explosive or explosives ingredient, and they did not know it was being bought by the Explosives Department. The Explosives Department have made a special arrangement with distillers for special prices for spirit for the making of propellants to be fixed quarterly, the spirit to be duty free. This was later extended to cover the general Government user, and to cover methylated spirit.

2291. The contractors for the spirit ultimately agreed to have 3d. per gallon refunded?—Yes, I think it is about 3d. per gallon, which is the special reduction we get under the special arrangement with the distillers provided we take it duty free.

2292. What I want to know is what advantage was the contractor getting by supplying at 2s. 10d. duty paid as compared with 2s. 4d. duty free?—It is a question of the interest on the duty, and probably the trouble of collecting and recovering it.

2293. Why should he refund 3d. per gallon afterwards?—I think the 3d. per gallon which he refunded was because they made a special price to the Government which was below the general price to the public. The Trench Warfare Department still pay the duty; they buy duty-paid alcohol. It is at a special Government price which is on a duty-free basis. I think this paragraph is not very happily worded perhaps.

Chairman

2294. The point of the paragraph is that the two Government Departments were working independently, and that the one did not know what the other was doing?—At the time that was so.

Sir *Charles Henry.*

2295. What I cannot understand is why that 3d. a gallon was refunded if the one was getting it duty paid and the other duty free?—I think all they refunded was the special concession given to the Government by the distillers on account of our having large quantities while the 2s. 10d. price was probably the price ruling for the public as apart from the duty.

Chairman.

2296. Is the last sentence of (b) accurate—that this latter question has been taken up, and that the whole problem of internal co-ordination is also in hand, while a Committee has been recently set up on the wider matter of inter-departmental co-ordination?—That is so.

2297. Can you tell us the result of that?—Overlapping in the Ministry has been stopped by arrangements that supplies shall only be bought by one section, or in consultation with that section. External co-ordination has been effected by a joint Committee of Contracts and Finance Officers of the Admiralty, War Office, and the Ministry of Munitions. That has been going on since July, 1917. Lists of supplies have been printed and circulated between the Departments. There is also a Joint Costs Committee, I think, with a Central Costs Registry.

Sir *Charles Henry.*

2298. Can we have the name of the other Department which was buying this material at £20 a ton?—It was the Aeronautical Department, which was then under the War Office. It is paragraph (b) you are talking of.

2299. Then you say that negotiations are in course of progress by which any deduction realised by arbitration should apply to all Government purchases. Have the contractors agreed to abide by that decision?—I imagine so. That is all under the Ministry now. The Aeronautical Production Department is now under the Ministry, and I cannot imagine that the Ministry would itself at the present moment be paying two prices.

2300. Who were the people who were paying £20 a ton? Have the contractors agreed that if the arbitration decides the price should be £13 a ton the con-

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

tractors will reduce the price to the Aeronautical Department to £13 a ton?—I doubt whether any other Government Department wants caustic soda.

2301. This is in connection with stuff already delivered, according to Sir Henry Gibson's report, and my point is this. You said that the Aeronautical supply was under the War Office. If they get a reduction for this stuff from £20 to £13 a ton, will that Government Department obtain that reduction from the contractors?—I should think so, certainly; but it is now the Ministry and no longer the War Office; they have taken over Aeronautics, and so I do not think there is any doubt about it.

2302. And the things they bought before the Ministry took it over you will adjust for them?—I hope so; I will make inquiries, if you like.

Chairman.

2303. The next paragraph deals with contracts. Is it not the case that Sir John Mann knows more about that, and that we ought to call him?—Yes, if you will tell me which particular paragraphs so that I can let him know.

2304. I thing paragraphs 31 and 32 clearly belong to Sir John Mann, and paragraphs 33 and 34 also, do they not, and we will put them aside in the meantime?—Just as you like; I am prepared to answer questions upon them.

2305. You will be here anyhow, but we will postpone those paragraphs for Sir John Mann.

COSTLY EXPERIMENTS.

Chairman.

2306. (To Mr. *Barstow.*) Did the Treasury agree to the ultimate settlement referred to in paragraph 35, Mr. Barstow?—Yes, Sir. The case was reported to the Treasury, and the Treasury had perforce, with much reluctance, to accept the proposal that this was the best way of concluding the transaction.

2307. They had perforce, with reluctance, to accept it?—It was a case the Treasury regarded as rather a deplorable case, but, on the facts represented to them, they agreed generally with the Minister as to the course which was to be pursued subject to pressing the Minister to reconsider the grant of a bonus on the capital of the company, and it was actually reduced. The Ministry purchased the shares at a premium of 50 per cent. instead of 50 per cent., as had been proposed when the Ministry put the case to the Treasury.

2308. So that the Treasury did make the bargain not quite such a bad one?—That is all that can be said.

2309. Have you come across evidence that if the Treasury had been consulted before still further loss might have been avoided? Was there any previous stage at which the Treasury, in your opinion, ought to have been consulted which would have avoided more loss?—I do not think the loss in this case arose from failure to consult the Treasury; it was from some action taken by the Ministry, which was of a rather injudicious kind.

2310. But, at all events, the Treasury were consulted at the proper and necessary stage?—The Treasury were consulted at the time when the Ministry——

2311. Ought to have consulted them?—Ought to have consulted them? Yes, when the Ministry desired to effect a settlement and terminate the agreement.

2312. There was no neglect to come to the Treasury at any previous stage?—No, I think not.

Mr. *Leif Jones.*

2313. It is stated in the paragraph that the cost involved in escaping from this unfortunate contract amounted to £18,900. How is that made up?—(Mr. *Watson.*) The purchase of the share capital of the Company represented £10,700, a bonus of 30 per cent. £3,210, and the liabilities of the Company were paid up to £5,000, making £18,910 in all.

2314. There is the place standing now as your property. What has it cost you?—(Mr. *Dannreuther.*) About £100,000 has been spent on the plant altogether.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

2315. So that you think £120,000 has bought the place?—Yes. The value of the property now remains with us, while under the original agreement it would not have done, so that I do not think it is an unsatisfactory solution of the difficulties that arose.

Chairman.

2316. Have you ascertained the cost of that experiment referred to in paragraph 36?—That was really hardly an experiment; it was beyond an experiment.

2317. What was the total cost?—£186,000. Liquidation is still proceeding. We actually got 200 tons of acetone by the process.

Sir *Charles Henry.*

2318. Did the Admiralty benefit by this experimenting?—I think the experimenting had been already carried out; I think this was an attempt to do it on a big scale.

Mr. *Leif Jones.*

2319. Was it not a question of these distilleries closing down or being used for this purpose?—Of having to be closed down—I think that was so.

2320. How many distilleries were dealt with in this experiment?—About half a dozen.

2321. And two of them reached the stage of producing acetone. Is that so?—Yes, I think we got about 200 tons of acetone before the time came to stop.

2322. Did you convert the whole of the plant in these distilleries? You told us that, because of the grain shortage, it was decided to cease to produce acetone in this way?—Yes. I believe that was one of the main reasons.

2323. At what stage did you determine to restore the plant to its old condition, and why?—To give up the experiment.

2324. It was more than giving up the experiment. You did not cease the experiment. Ordinary distilling was stopped in the patent stills, I believe?—Yes, and money was spent on adapting them to make acetone.

2325. But, as ordinary distilling was still stopped, what was the good of restoring the plant? There was a temporary grain shortage, which, one would hope, was temporary, and which was, in fact, temporary, but why did you restore the plant?—We were under obligation, under the terms under which we took them over, to restore the plant.

2326. Not if you were to go on producing acetone?—The acetone would have been very expensive, and I do not think we wanted acetone to the same degree as we found we had succeeded with RDB, and Gretna was producing without the use of acetone.

2327. Since then, as has been pointed out, you have used this process at other places?—Other places which were already in existence.

2328. You say the cost of this experiment, turning these distilleries into acetone factories and turning them back into distilleries, has been £180,000?—(Mr. *Watson.*) That is the net cost, after deducting the value of the acetone and the value of the assets being realised. (Mr. *Dannreuther.*) That is what it is expected to amount to.

2329. Were these Scotch or Irish distilleries?—There are three Scotch and three London.

2330. Have these all been restored as distilleries? What is happening to the plant now, do you know?—The Ministry is under obligation to render the distilleries again suited for the manufacture of alcohol. The cost of this is not expected to be great.

2331. It has not been done yet?—No, I think the liquidation is still taking place.

2332. What is happening? These are buildings with plant in them. What is happening to the plant? Is it really being turned back, or, if it can be used to produce acetone, have you decided to go on with it? May we have the terms of the contract with any of the distilleries?—They could be put in.

2333. I should very much like to see the terms of the contract with one of the distilleries, as I do not feel that I have got to the bottom of the story at all?—(Mr. *Watson.*) We have not got the terms here, but they can be put in.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

2334. The Comptroller and Auditor-General says: "Very heavy expenditure had to be incurred in reconverting the plant to its original use." Has the plant been reconverted to its original use?—(Mr. *Dannreuther.*) I rather gather from these papers that the plant has not yet been reconverted to the same extent as anticipated in the report.

2335. The Comptroller's statement is really based on a misconception?—He has had further papers over and above those we have here this afternoon.

2336. I should very much like to have a statement on the subject?—(Sir *Henry Gibson.*) I have no complete statement, but I have some figures showing that some expenditure has been incurred. I think it would be better to have a complete statement from the Ministry.

2337. We ought to have a statement covering the whole cost of converting and reconverting. You took six distilleries in hand and made them into acetone producers, and now it is proposed to reconvert them to their original purpose. I want to know what the estimates were for that work and what it has actually cost?—(Mr. *Dannreuther.*) I will furnish a statement with regard to that.

PRICES OF METALS.

Chairman.

2338. (To Mr. *Barstow.*) Referring to paragraph 37, Mr. Barstow, I observe the Treasury have approved of these arrangements?—That is so.

2339. Without the reluctance they experienced in the previous case?—With a good deal of reluctance. Once the State gets into the habit of fixing prices artificially a large number of complications ensue, and special rebates and other matters have to be adjusted which gradually increase the complication, so that I think I can fairly say that the Treasury is rather reluctant in agreeing to these various concessions.

2340. On general grounds?—On general grounds.

Sir *Charles Henry.*

2341. Are they giving the subsidies to those who want the Ministry to supply steel, so that they get the steel at a more advantageous price than it costs?—The sort of thing which has arisen is that the Ministry fixed the price at which pig iron and iron ore were to be sold to various consumers. Complications arise if, for instance, freights go up very much; either you must move your price, and in the meantime a large number of contracts have been built up on the hypothesis that there was a fixed price, or you must give rebates.

Mr. *Leif Jones.*

2342. Have we any figures showing what the net result of this arrangement has been?—I do not know.

2343. Have you any, Mr. Dannreuther?—(Mr. *Dannreuther.*) The net cost or the net saving?

2344. I do not know which it is?—The object has been to pay all these extras at the source, and thus save subsequent profit percentages all the way through.

2345. What has been the net result?—a loss to the State or not?—The Controller of Contracts is satisfied that the system is sound, and that the effect in stabilising the price of steel, which is the main constituent of munitions, has been helpful.

2346. Has it been costly?—We are paying out big sums by way of subsidies; what we should have to pay if we let the price run up at the other end—how much more—I cannot say.

2347. I should like to know what we are paying by way of subsidies.

Mr. *McKinnon Wood.*

2348. Would it be a good thing to put this to Sir John Mann?—Yes.

2349. I remember when I was at the Treasury he had to do with these?—His Department has had to do with them.

2350. I think it might be useful to put it to him rather than bother you with it.

2351. I was

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

2351. I was just about to get an answer from Mr. Dannreuther?—It is about £35,000,000 per annum for the freights and war risks. (Mr. *Watson.*) There is about £12,000,000 per annum rebates of subsidies and about £23,000,000 per annum freight and war risks insurance on iron ore coming from Spain and from Mediterranean ports.

2352. A subsidy in order to maintain the present prices for iron and steel of £35,000,000 per annum?—Yes.

2353. Was that expected when you fixed the price?—(Mr. *Dannreuther.*) I cannot say it was expected. (Mr. *Watson.*) The system of subsidies has rather grown upon us.

2354. It has a way of growing?—(Mr. *Dannreuther.*) Yes, the whole position is being investigated at the present moment.

2355. Was your object when you fixed the prices to fix them at such a level that there should be practically no loss to the State? In several instances where subsidies are now being paid the idea was, when the arrangements were originally made, that that would be no cost to the State. Was that the case here?—(Mr. *Watson.*) The original object for which these rebates were given on the shipment of iron ore to this country was in order that we might maintain the standard price of pig iron and at the same time maintain the production.

2356. You knew when you granted the rebate that that was a grant in aid of the present price?—Certainly.

2357. There was no idea of its being included in the price, as it were?—There was no idea of its being recovered—I think not.

2358. That is £12,000,000, I think you said?—No; that at the present time amounts to £23,000,000 per annum.

2359. What was the original estimate for it?—I cannot say what the original estimate was—probably two or three millions; but the increase is due to the freight rebates having gone up. We fixed a certain parity rate of freight, the cost of which was paid by the Ministry.

2360. And after that the freights went up?—The freights have continued to rise.

2361. That is a subsidy, you say, of £35,000,000 a year?—This particular subsidy is £23,000,000, and there is £12,000,000 for other types of subsidy due to other causes.

2362. Is this likely to rise still further? Have you considered the point? Do you anticipate a further rise?—I do not think the point has been very greatly considered, but it is difficult to say how far we have control of the rates of freight from these ports. For the most part it is in neutral steamers.

2363. However the freights may soar, you have to follow them with your subsidy?—As the subsidy is at present constituted we have. There is an inquiry into the whole question of subsidies at the present time.

2364. Are you considering the alternative of allowing a rise in price?—Yes, that is the position that is being considered.

2365. Have you considered at all which will ultimately cost the country most?—That is now being considered; that is part of the inquiry which has been going on for the last month or so.

Sir *Charles Henry.*

2366. As regards these subsidies, may I ask when you enter into a contract with a contractor for the supply of certain material do you practically guarantee him that his iron or his steel will not cost him more than a certain price?—(Mr. *Dannreuther.*) Yes, the ore is guaranteed delivered from the Mediterranean or from Spain at a certain rate. (Mr. *Watson.*) As a matter of fact we do not ordinarily make contracts for ore.

2367. You supply them with the iron and steel at a certain rate?—We supply steel to contractors at a certain price to make munitions, and in order that the steel may be produced by the steelmakers at that

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

standard price we have to guarantee a standard price for pig iron.

2368. Therefore they all pay a uniform rate?—Yes.

LOSS ON ALUMINIUM ISSUED AT FIXED PRICES.

Chairman.

2369. (To Mr. *Dannreuther.*) What about this aluminium mentioned in paragraph 38?—The facts are as stated. A price had to be fixed. Would you want to leave this for Sir John Mann? The prices are particularly within his function.

2370. Is that under the same Committee which is inquiring into the subsidies?—(Mr. *Watson.*) Sir John Mann is not inquiring into the subsidies.

2371. It is the question of aluminium under this paragraph I am referring to?—(Mr. *Dannreuther.*) It is a matter of fixing prices. (Sir *Henry Gibson.*) It is a contract question, and if Sir John Mann is coming you had better leave him to deal with this question.

ISSUES TO THE ALLIES.

Chairman.

2372. (To Mr. *Dannreuther.*) Have you anything to say with regard to paragraph 39, Mr. Dannreuther?—The reference here is nearly all to Russia.

Mr. *Leif Jones.*

2373. Has this to do with Sir John Mann, because this is a question of prices?—The fixing of prices—yes.

2374. I suppose this has come to an end?—It is being liquidated; we have a Committee liquidating the position with Russia.

Chairman.

2375. Does that refer to the whole of paragraph 39?—I think the reference is entirely to Russia. (Mr. *Watson.*) Yes. (Sir *Henry Gibson.*) This is more or less historical.

2376. Does the same thing apply to paragraph 40?—(Mr. *Dannreuther.*) With regard to paragraph 40, we have got over the difficulty with regard to iron and steel by an arrangement under which the Allies pay us American replacement prices in dollars for the cost of the iron and steel.

2377. Has any provision been made for capital expenditure now?—With regard to capital expenditure, generally we allow for depreciation in costs of products of national factories in arriving at our vocabulary prices—that is, our issue prices. Where capital expenditure has been provided by writing off from excess profits, in that case the excess profits have been earned, but the Allies have probably paid the complete price, and you must not charge them twice over, as the British Government keep the excess profits duty.

2378. With reference to paragraph 41, is that now practice retrospective?—At that time the Treasury preferred loans. It was owing to the dollar position. If we took cash over here we should have to go when we wanted to replace later and get fresh dollars over in America, and I think I am right in saying the Treasury rather preferred loans to avoid having to ask America for more dollars. This is still Russia we are dealing with, but now that we are liquidating we are trying to clear off all outstanding loans and converting them into cash.

2379. We supplied the materials to Russia?—Russia would have a contract with America for some aluminium, and they wanted some in a hurry, and we would lend them some from our stock over here.

2380. Aluminium?—Whatever it might be—aluminium or copper; we would lend them some, and instead of asking them to pay in cash, we would say that we would like them to return in kind, and it would come later on from America without our having to get fresh dollars to purchase ourselves. There were Exchange matters in it a good deal, which was the reason for preferring loans.

14 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

2381. These are large quantities, are they not?—(Mr. *Watson.*) This particular case mentioned here was 3,000 tons of copper.

2382. Are these now being priced? Is that what you call liquidating the accounts?—(Mr. *Dannreuther.*) Yes. (Mr. *Watson.*) In one of these cases we recovered in cash from Russia, one case referred to here. We made our cash claim on the Treasury in order that they might recover on our behalf from Russia. The Treasury gave us the cash, but as to what they did in the way of recovery I do not know.

RECTIFICATION OF DEFECTIVE SUPPLIES.

Chairman.

2383. (To Mr. *Dannreuther.*) Have you anything to say with regard to paragraph 42, Mr. Dannreuther?—I have been asked by the Financial Secretary to hand in a short statement prepared by the Controller of Inspection of Munitions on this particular point (*handing in the same*). [*Vide Appendix No. 15.*] It will be seen that the loss by rejections on the second inspection represent a very small percentage of the whole of the goods supplied—namely, decimal 4 of 1 per cent. We have reported the matter to the Treasury, and have received their approval to write off the loss involved. I think there is no doubt that to have set up a completely satisfactory inspection department in the early days in the United States of America would have cost more than the actual cost of re-examining supplies when they reached this country. Since America came in the position has a good deal changed. Our specifications have been tightened in America. We had relaxed them a good deal before America came into the war.

(The Witnesses withdrew.)

Thursday, 6th June 1918.

MEMBERS PRESENT:

Mr. Arnold.	Colonel Sir Herbert Jessel.
Sir Hildred Carlile.	Mr. Leif Jones.
Sir Henry Craik.	Sir Robert Williams.
Sir Charles Henry.	Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir JOHN MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. G. F. GARNSEY, and Mr. A. WATSON, called in; and Examined.

(Mr. *Dannreuther.*) May I first report with regard to paragraph 30 (b) that a reduction in price has been secured with regard to the Aeronautical Department supplies with retrospective effect.

Sir *Charles Henry.*

2384-2388. That is to say, the £20 a ton will not be charged?—It is not the same price because it is a different quality, but a corresponding reduction has been obtained retrospectively.

Mr. *Arnold.*

2389. May I ask a question on 6 (b)? It is the paragraph at the bottom of page 8 with regard to the use of components manufactured under a separate contract. What exactly is the inwardness of that? Is this the case of a contract which was given to a large armament firm for complete rounds?—(Sir *John Mann.*) I am very sorry that I am not prepared to speak on this particular point. I have not posted myself up on it. (Mr. *Dannreuther.*) That is the case in my recollection.

2390. And they were paid not only for the separate parts but also for the complete rounds in some cases?—It was considered better to make advances to them by paying their bills on the contracts really in existence for complete rounds, making debits against them separately for any goods supplied to them from other sources.

2391. There was an amount apparently of £230,000 for components which the firm had manufactured under separate contracts for which they had already been paid in full?—There was a debit raised against them for that; we were holding up a lot of money against them.

2392. Has this system of contracts for complete rounds of ammunition been stopped now?—(Sir *John Mann.*) There are very few contracts of that description to-day, and I cannot recall any at the moment.

2393. They only go to big firms?—There are very few firms that can undertake the work connected with all the ramified processes which lead to a complete round. The policy has been rather to invoke the help of contractors throughout the country for getting the parts together and then assembling them in the national factories where the filling finally takes place.

2394. If a contract was placed in detail with a big firm it

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Sir J. MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Arnold*—continued.

it ought not to cost more than if it was placed for a complete round with them?—No; one would assume that the parts are not greater than the whole.

2395. As a matter of fact did that happen? When these particular firms were doing these contracts in detail did they not charge more than if they were doing them for a complete round, although there was no reason for that?—I am not aware of that; I would have to inquire before I could speak with any assurance upon that.

2396. I should very much like to know about that?—The particular point would be to make a comparison between the complete round prices and the detailed prices in cases where there are similar circumstances.

2397. I should like this particular case if you could do it, because I do not think you are having complete round contracts now.

Sir *Charles Henry.*

2398. Is it not a fact that at the time of the case under review urgency or expedition was one of the most important factors to be considered, and may you not have got greater expedition in delivery by placing orders for complete rounds than by letting them go through the different processes?—It is perfectly clear that at this early stage the firms who were in a position to contract for complete rounds were occupied to the utmost on that line, but as matters developed and the organisation matured it was found possible to get the different parts manufactured separately and afterwards brought together.

Mr. *Arnold.*

2399. Your point would be that you think if there was this difference in price it would be defended, as it were, by questions of urgency?—Yes, and we certainly have got to pay the main contractor who is in a position to deliver complete rounds something for his skill and knowledge of a very limited and troublesome business in addition to the actual cost of the parts he was dealing with.

2400. You do not think there were cases of big contractors having contracts for complete rounds who had also contracts for the work in detail, and who were not debited for the complete rounds product with any of their own components which they might have used; in other words, they were not paid twice over? That is what I want to get at?—(Mr. *Dannreuther.*) Not that I know of.

2401. It is stated here "as a result of the use of components valued at £230,000 which the firm had manufactured under a separate contract, and for which they had already been paid in full." That looks as if it did happen?—I think the whole matter was the method of paying; they had a contract for complete rounds on which we could really pay, and charge to the Vote, and we preferred instead of making advances generally to pay on these, and make debits for the goods issued to them which they ought to have supplied themselves.

2402. If that is so, why does the Comptroller and Auditor-General speak of further large over payments being made?—I believe some of the over payments arose for the moment because the debit for the components obtained elsewhere was put against high explosive shells only, and they had contracts for complete rounds of high explosive and shrapnel. (Mr. *Watson.*) They had contracts for both, and components were issued to them, but a great part of the components had been manufactured by themselves.

2403. By the contractors themselves?—Yes. (Sir *Henry Gibson.*) The point in our letter in which we raised the matter was "it appears under a certain contract the contractors were paid by the Ministry for a certain shell at a certain price which they delivered between April and December, 1916, to their own assembling works. The firm has also charged the full price of £2 3s. per round for the complete rounds under another contract for which the shells were presumably used. The former contract, however, specifically provided that the quantity of shell to be supplied under it should be such number as the contractor could deliver before commencing delivery of complete rounds under the other contract. No payment ought therefore apparently to have been made under this one contract in respect of the above shell, and I am to request that further information on the subject may be furnished." The reply of the Minister of Munitions was "The Contractors' records at the assembling works have been examined by the Internal Audit Section, and it has been ascertained that they have received 226,417 shells from some other works. This quantity is being verified with these other works, and examined with the bills paid under the contract. As soon as the figure is confirmed a charge will be raised against the firm in question to recover the amount paid in respect of shell used for the purposes of the other contract."

2404. You think that was put right or adjusted?—That is being done at the present time; this letter we only got the other day. (Mr. *Watson.*) All but a very small portion has been recovered.

2405. Will it all be recovered?—Yes.

LARGE PROFITS ON CONTRACTS.

Chairman.

2406. (To Sir *Henry Gibson.*) With reference to paragraph 32, Sir Henry, have you got any answer to your question as to the revision of prices?—(Mr. *Dannreuther.*) The reply to the Comptroller and Auditor-General was delayed through a mistake in my department, the papers having been mislaid. I have reason to believe that if it had been in in time this paragraph would not have appeared. I must apologise to the Comptroller and Auditor-General and to Sir John Mann. (Sir *John Mann.*) May I explain it in a word or two?

Mr. *Leif Jones.*

2407. Please?—The contractor referred to in paragraph 32 was one of the first who undertook this troublesome question of filling. It was an experiment for him; he was a pioneer to some extent. He had two provisional contracts, one for fuses, another for gaines.

Colonel Sir *Herbert Jessel.*

2408. What is a gaine?—A gaine is a long tube inserted in the middle of the shell to carry the explosive right to the heart of the shell. (Mr. *Watson.*) It conducts the explosion from the fuse to the shell. (Sir *John Mann.*) It is rather a troublesome piece of work. His provisional prices for the fuses were much too low, and for the gaines much too high. That became apparent on the disclosure of his results, and, as the whole arrangement which had been made was provisional, the state of his account over all his trading is presently coming under review by the Special Committee of the Treasury who deal with such cases, and it is therefore *sub judice* in a sense. We are perfectly persuaded that Sir Henry Gibson, on getting the fuller detail, which is probably now in his hands, will be satisfied that this particular paragraph would have been worded rather differently. I rather claim that it is in favour of the Ministry's methods of handling, and that the result will be quite satisfactory.

Mr. *Leif Jones.*

2409. But how comes it that Sir Henry Gibson, who makes this report after investigation, did not get at the facts in the case?—I think I ought to say it is because of this that the reply was unfortunately delayed, and the statement is based upon some of the papers relating particularly I think to the gaines, and the reference to the fuses is not embodied in this.

2410. As the paragraph reads it looks as if the contractor in question had made something like £40,000—at least on this particular matter?—Overhead the contractor

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Sir J. MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

contractor claims to have made between gaines and fuses a loss taking the two stores together. They are made in the same factory, and it is very difficult to apportion the charges and costs between the two stores.

2411. On the gaines, judging by that price, he would have made a profit of £40,000, so that on the other article which he made, fuses, he has made a loss of a greater amount?—May I summarise it? (*Giving certain information as to prices which it was directed should not be recorded.*) Those prices were provisional to enable him to get payments of various amounts on the understanding that the full position was to be reviewed when we all had experience, and it is only now that we have got that experience.

Sir *Charles Henry.*

2412. Has the Ministry taken up the costing of these gaines?—Very deliberately.

2413. You have taken out that costing as well?—Yes.

2414. Was that £13,000 which the Ministry provided a grant or gift, or was it in the form of a loan?—I should have to look into the papers for that. (Mr. *Dannreuther.*) It dates back from October, 1914. They were one of the very first firms to come to help.

2415. It is quite justified, I am certain, but are we to understand that it was a loan or a grant?—It was a grant.

2416. That means a gift?—Yes.

PROFIT ON SUB-CONTRACTS.

Chairman.

2417. (To Sir *John Mann.*) With regard to paragraph 33, can you tell us anything about this profit on sub-contracts, Sir John?—That shows a progressive reduction in price, and it certainly, taken very broadly, indicates that some of the major contractors were making a substantial profit upon what they were able to sub-contract for, but it is impossible, of course, to contrast the two figures just as they are stated there; the finally agreed price of £205, with the later quotation of £116 and £111, because twenty months elapsed between the two dates, and one was a repeat order obviously, at a keenly cut price by the sub-contractor to enable him to get direct contracts with the Ministry. As the Committee probably know we have now power to investigate the sub-contractor's costs, and we are finding that a very fruitful source of savings. It is very difficult to get on the track of the sub-contractors, as you can understand, but wherever we get the opportunity we are taking it up. We are really limited in that respect by staff difficulties.

Sir *Henry Craik.*

2418. How does it reduce your costs if you reduce the amount which the sub-contractor is to receive from the principal contractor?—Because we have power to claim a direct refund of the difference between what we consider a reasonable price to the sub-contractor and what he may have charged to the main contractor under Regulation 2 (bb) of the Defence of the Realm Regulations.

Sir *Charles Henry.*

2419. Cannot a contractor sub-contract without the authority of the Ministry?—In theory they should get consent, but in practice it is almost impossible to insist upon it in every case.

2420. You are in a position to stop it if you think it desirable?—That is so.

2421. Do you ever exercise that power?—There have been cases where there has been a pull-up.

COMPENSATION TO CONTRACTOR.

2422. As to paragraph 34, I should like to refer to the filling factory which was abandoned, the correspondence with the Treasury about which appears in

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

the early part of the White Paper. It is said here that it was abandoned "as a result of technical changes in the system of filling and a consequent recognition of topographical defects in the site originally chosen." What I want to know is, supposing there had not been these technical changes in the system of filling, would the original site have been all right?—(Mr. *Dannreuther.*) I think the site was badly chosen. It is rather difficult to find out more about it, because all the people who were concerned with it have left the Ministry long ago. My impression is that in the hurry to start these new factories that was a badly chosen site.

2423. You had nothing to do with it at all?—No. (Sir *John Mann.*) I had occasion to investigate the matter more than a year ago, and that was the impression left on my mind—that it had been an error of judgment in the choice of the site.

2424. Who was responsible for choosing the site?—As Mr. Dannreuther has stated, all the officials concerned in that unfortunate transaction have ceased to serve the Ministry.

2425. Then there is nothing more to be said than that it was a badly chosen site, and that it cost the State £17,697. I suppose due notice was taken of the mistake at the time?—(Mr. *Dannreuther.*) It was decided to abandon the site and to increase the filling factories at two other places instead, and have greater concentration at those two places.

Mr. *Leif Jones.*

2426. Excuse me; in this case I understand that they were acting hurriedly at the beginning of the war when you were getting what you could, and that therefore insufficient consideration was given to the site; but what I want to know is whether full consideration is given now before you enter upon such a thing?—We do not start new filling factories now. (Sir *John Mann.*) Broadly speaking, before any new scheme is sanctioned the machinery that has been created for the last two years, I think, is quite sufficient to have these propositions looked at from every point of view.

2427. It is by no means the first case in which we have had topographical considerations arising after the site has been settled and expenditure made—I do not say with filling factories, but we have had aerodromes, we have had Loch Doon and other cases, and I want to know whether due precautions are now taken in the Ministry?—I think the complaint has been rather suggested against us that our machinery for checking these things is so elaborate that it tends to delay. We have been challenged on the ground that we take too many precautions and do not get ahead.

Chairman.

2428. Do not object to that form of challenge; it is very useful?—I merely point out that as an outside criticism we have had these complaints, because some people think our precautions are over-elaborate.

Mr. *Leif Jones.*

2429. You yourself think they are not over-elaborate but are sufficient?—I think they are not over-sufficient, but I cannot think that we could possibly take more precautions than we do take, and I would be very much surprised if any serious blunder parallel to what we have been discussing were to arise now. May I suggest that it is rather an indication of courage on the part of the management that when they did find out a mistake of this kind they very promptly changed their whole plan.

2430. I think you may be congratulated that you have not lost more than £18,000.

Mr. *Arnold.*

2431. Does it not rather appear from the correspondence that even from the very start there was a certain amount of uneasiness about this site, because if you look at the bottom of page 5 it says "did not necessitate any interference with the contract which had advisedly been drawn in such a way that any variations

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Sir J. MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Arnold*—continued.

tions resulting from a possible change of site could be readily made." What does that mean exactly?—That means that generally, wherever we can, we introduce a condition of the kind. This was in the contract for the building, and it is a normal condition. It does not in itself suggest that the scheme was entered into with special hesitation. (Mr. *Dannreuther.*) Before the war we had no filling factory except at Woolwich, and there was very little experience.

Chairman.

2432. As to division (b) of paragraph 34, that is a more serious loss?—This is a relic from the War Office days. (Sir *John Mann.*) I think the statement is quite correct as it stands. It really comes to this, that two very eminent gentlemen were deputed to make this arrangement, and the arrangement is as recorded here, and it was not one which would be well repudiated. I think we can claim that the settlement in the circumstances was quite a favourable one, and of course it was approved by the Treasury. It was a bad bargain which was got out of, I think, in a satisfactory fashion.

2433. That bargain was not of your making; it was the making of the War Office?—We do not want to put too much on the War Office, but it was of the War Office making.

2434. It was before you were in existence?—It was early in 1915.

2435. With regard to paragraph (c), this seems to have arisen from an obsolete specification?—That seems to be absolutely a clerical error in forwarding a specification that was not so much obsolete as defective. It dated back to 1904, and had been out of use, and was issued in 1910, but there had been no occasion to test the product of the specification until those shells were put to proof. It is a very rare type of shell altogether.

Colonel Sir *Herbert Jessel.*

2436. I would like to know whether it was found out that the shells were bad before they went abroad?—They did not go abroad at all; they were held up right at the start.

2437. Is it ever reported to you that shells are bad which have gone abroad, although they may have been passed by the Ministry?—Yes, there are very elaborate returns.

2438. From the Front?—Yes, and they are thrown out through the Design and Inventions Department, and the Inspection Department, too, of course.

2439. But a shell may have passed all the tests on this side by the Ministry of Munitions, and what I want to know is, do reports from the Front reach you as to whether shells are detected to be not right out there?—(Mr. *Dannreuther.*) They reach the Design Department. In paragraph 43 you will find it stated that there were a lot of prematures. (Sir *John Mann.*) Regularly in the reports which come forward we see statistics of a certain store indicating any difficulty of this kind, and the latest general statement which reached me from the military authorities was that the number of defective stores was marvellously small.

2440. That is very creditable to the Department?—In fact, Mr. Churchill, I know, takes very great credit, and I think he has publicly taken credit for the marvellously small number of defective munitions which have been supplied through the Ministry.

Chairman.

2441. He did in his speech?—Yes.

Colonel Sir *Herbert Jessel.*

2442. What I want to get at is this: If there was a complaint the type would be altered?—At once, undoubtedly, and that is one of our difficulties in the Contracts Department for which I am immediately responsible. We occasionally get a telephone message: "Stop so-and-so, as something has gone wrong." New stores, of course, are particularly open to that challenge. That upsets all our arrangements, and we have to stop them by telegram or telephone and change the design.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Colonel Sir *Herbert Jessel*—continued.

2443. You say that you are satisfied with the reports you have received, on the whole, as to the condition of the output after it has been passed by your examiners, and the test is, of course, at the Front?—In actual warfare I believe it is found to be almost—one does not want to use the word "perfect," but as nearly perfect as is humanly possible.

Chairman.

2444. As to paragraph (d), how did this manage to happen without reference to the financial authorities?—I have looked into that, and it is simply a case of two officials, each of whom was relying on the other getting financial sanction, and believing it had been got, and at the end of the day finding that, by some mischance, neither had obtained it. It was, no doubt, a case which in the ordinary course would have obtained the sanction of the Treasury before the transaction was settled. There is a point on the last sentence in the paragraph which is hardly, to my mind, representative of the Treasury letter even. I think a little change in the wording would have made it clear. There is nothing on the papers or from enquiries I have made to show that the Company would have had any difficulty in fulfilling its contract. It is one of the very large and prosperous undertakings in France; there was no reason to think it could not have fulfilled the contract, but it was decided, as a matter of policy, to cease the manufacture in France and take up the manufacture in England, and if we had had to repeat the transaction I do not think we would have altered what happened.

2445. Mr. Barstow, do you concur in that, that this paragraph is not quite an accurate transcript from your letter?—(Mr. *Barstow.*) I will read the words of the Treasury letter to the Committee:—"My Lords understand that public faith has already been definitely pledged by the action of the Contracts Department of the Ministry of Munitions to a settlement of the Company's claim on the terms described in the letter under reply, and in the circumstances they are constrained to give their covering sanction for the nugatory expenditure involved, amounting to £7,233 14s. 10d. net, or less if the remainder of the plant handed over to the Ministry can be sold to advantage. It does not appear, from the information furnished to their Lordships, whether the Company would, in fact, have been likely to fulfil their part of the contract if they had proceeded, or whether their non-delivery of the 20,000 gaines contracted for in the first month was due to the Ministry having already opened negotiations for the cancellation of the contract."

2446. It did not appear from the letter submitted to them?—Quite so—"but my Lords assume that at this stage nothing will be gained by further enquiry into the case." The papers only got to us in February, 1917, and the contract was cancelled in December, 1915.

Sir *Charles Henry.*

2447. What was the object in the Ministry taking over the plant, which realised £137?—(Mr. *Dannreuther.*) It realised a bit more than that; as a matter of fact, there was something more realised in the following year, another £50 or £60.

2448. This plant was in France, was it not?—(Sir *John Mann.*) Yes. (Mr. *Dannreuther.*) And, I presume, it was sold there. (Sir *John Mann.*) It may have been sold in France.

2449. Was it sold back to the firm to whom you paid compensation?—The Company sold it in France on our behalf.

2450. You do not know the purchaser?—I have not got it on the papers.

PRICES OF METALS.

Chairman.

2451. (To Mr. *Barstow.*) With reference to paragraph 37, Mr. Barstow, had the Treasury much difficulty

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

culty in approving these general arrangements?—The Treasury considered each of these arrangements very carefully, as I said last time, with a strong disinclination with regard to the whole method of dealing with them, but, nevertheless, on the hypothesis that prices had to be fixed, they felt there was nothing for it but to sanction in turn the different stages of the concessions made.

Sir *Charles Henry.*

2452. Has any amount been refunded to the Government on account of the difference in price?—(Sir *John Mann.*) There has been a good deal of accounting enquiry, but I do not know if the money has been paid. (Mr. *Watson.*) Yes, it has been paid. (Sir *John Mann.*) There are hundreds of thousands in and out of rebates and subsidies.

LOSS ON ALUMINIUM AT FIXED PRICES.

Chairman.

2453. (To Sir *John Mann.*) With reference to paragraph 38, Sir John, can you tell us anything more about this loss on aluminium?—Of course, at the beginning of the year it was necessary to fix some price, and it was fixed in light of all the information then available, but between the higher freights and insurance I am told that the cost rose £32 per ton, and the policy was established of re-arranging the price for the following year to some extent to provide for that difference. I believe over the two years the overhead debit is about £30,000. I have a little difficulty in following in detail what Sir Henry Gibson desires to indicate in the clause, but I think the suggestion is that we had lost this £350,000 irretrievably, but when one considers that practically a large part of this is used for Government stores, and if the price had been altered we would have paid more for the stores, it is very difficult to say it is entirely lost, and I do not think it is. On the other hand it is a question whether it was wise to put up the price really against ourselves to some extent in the following year.

Sir *Charles Henry.*

2454. What was the price of aluminium before the war—about £60 or £70 was it not?—I used to know, but I am afraid I cannot recall it at the moment. I know that the American price to-day is over £300 per ton.

RECTIFICATION OF DEFECTIVE SUPPLIES.

Chairman.

2455. (To Sir *Henry Gibson.*) Referring to paragraph 42, Sir Henry, have you got the information for which you have asked?—(Mr. *Dannreuther.*) I do not think the reply has been sent to Sir Henry; we were waiting for the Treasury letter approving the write-off involved which has just been received. I handed in a memorandum from the Controller of Inspection the last time. On the whole it is considered that the position is quite satisfactory. The whole cost of rectification and replacement has been .4 of 1 per cent. on the whole of the goods received from Canada and America. The American contractors in the early days would not accept our rigid specifications, and we had to relax them, and we had a second inspection over here which was not under the terms of the contract. Now the position has very much improved—in fact, we have been justified in stopping the re-inspection of Canadian shell altogether. I think the percentage of rejections on re-inspection has got down to .0435 per cent., or something of that sort.

2456. Have you anything to say about paragraph 43 (a), which deals with the large stocks of defective shells, etc.?—This is the question of prematures to which I referred a moment ago. Owing to the number of prematures in France General Bingham stopped the use of certain American ammunition for three weeks in succession, and the prematures went down. He then decided that for the safety of the troops he must bring

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

home about 1,000,000 rounds. They broke down 50,000, and found nothing wrong. It may be desirable to explain that all these prematures occurred simultaneously, so that it may have been due to the fuses which were filled over here. Still, I think he was quite justified in doing what he did with the number of prematures which had taken place. No blame attaches to the contractors. The whole lot were disassembled; I think they were then reinspected and re-assembled, and I think they have been used. He tells me that he would do the same thing again if the same thing happened.

Sir *Henry Craik.*

2457. Is it frequent that you are unable to locate a fault of this sort?—I believe a very great deal of trouble has been taken to try to trace to their source the causes of prematures, whether it is in the fuse or the gun or the shell, but I do not think they have really got a satisfactory solution. (Mr. *Watson.*) They have not many of them.

2458. If it extends over a large number like this it must be some general cause?—(Mr. *Dannreuther.*) This was one of our main sources of supply for these rounds in the early part of the war; it just happened that there came a batch of these.

Colonel Sir *Herbert Jessel.*

2459. Would you give the name?—It was one of our biggest contractors in America.

Sir *Henry Craik.*

2460. Have you in any case of such a failure been able to locate the cause of a widespread failure like this?—I think so, particularly with regard to fuses. There have been a good many changes made in fuses where they have detected the cause of failure.

Mr. *Arnold.*

2461. With regard to fuses, I notice that this paragraph says "During 1917 over 3,000,000 fuses converted under the system of rectification were delivered by one contractor to various stores, but none of them were issued for service up to the 31st December, 1917"?—That is quite true. The particular fuse was an American fuse converted to No. 103 to be ready for filling. Meantime the Army have got a much better fuse, which they demand 75 per cent. of; it is the most successful fuse they have got, 106, and the consumption of 101 and 103 has been slight, but they are being consumed.

2462. They will all be used?—They will be, but they are not going so rapidly as we should like, because the Army insists on having the biggest proportion of the better fuse that can be got.

2463. It is stated in the paragraph that none of them were issued for service up to the 31st of December, 1917; what proportion have been issued up to date now?—They are being utilised slowly, I think; it is 75 per cent. of 106 we are issuing at present, to 25 per cent. of other natures.

2464. The question arises, what percentage of the remaining 25 per cent. are these? I quite agree with the Chairman that we should have the best fuse possible, but it is a little unfortunate that this large number should not be used?—Three million is not a very big quantity as things go nowadays for fuses.

Chairman.

2465. I notice that paragraph (b) of 43 says "Rectification of doubtful shell appears to have been allowed to fall seriously into arrear"?—(Mr. *Dannreuther.*) Although the quantities are large they are not so in proportion to total stock and current output. It is quite true that rectification of this kind has been taken up lately, and certain factories have been allocated specially to the work of rectification. A surplus stores department has recently been formed to dispose of all obsolete or scrapped stores and materials.

2466. On

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Sir J. MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry.*

2466. On what basis are the contractors paid for the rectification work?—I think it is mostly being done in our own bonds and stores, or in our own national factory at Llanelly, which has been converted into a rectification factory. It is very often only sandblasting and varnishing that is wanted, and that may be done at the stores and bonds by our own people. (Sir *John Mann.*) Very largely in the national stores and bonds where the shell is lying. It does not pay to move it about, of course.

Mr. *Leif Jones.*

2467. The complaint of the paragraph is the delay in putting through the rectification; is that going on still, or are you getting rid of the work?—(Mr. *Dannreuther.*) I think the Surplus Stores Department is now at work, but the total quantity, although big, is not very large; it may only represent a few weeks' output, and they did not concentrate on rectifying the bad stuff as against going on increasing the output. It is not a big quantity in relation to the current output. (Sir *John Mann.*) There is no doubt that the rectification of shell was a matter that was not taken up at an early stage, but for a long time past it has been very anxiously under consideration, and special arrangements have been made at the stores and bonds and elsewhere to overtake it. The fact is driven home to us by shortage of material if for no other reason.

Chairman.

2468. As to the last part of that paragraph, have you anything to say as to this material requisitioned for use?—(Mr. *Dannreuther.*) That was requisitioned by the Army Contracts Department in May, 1915, before the Ministry existed; and when the transfer of munitions to the Ministry took place, this was forgotten, and the Ministry were not told anything about it until the Admiralty Marshal later on sent a reminder, and finally it was referred over to the Ministry of Munitions. In the meantime, the price had risen, and we have actually sold for £4,500 profit, although it is not fair to claim it as profit. The £800 rent incurred was incurred chiefly before we took over. This was a mistake in taking over from the War Office; they forgot that they had this requisitioned material, and did not hand it over to us.

Sir *Charles Henry.*

2469. I suppose the Admiralty Marshal gets paid for the stuff you obtain from him?—Oh, yes.

STAFF OF THE MINISTRY.

Chairman.

2470. We now come to this question of the increase of salaries in the Ministry, which is dealt with in paragraph 44?—(Sir *Henry Gibson.*) I have now received a reply, dated the 3rd of June, from the Treasury. The Treasury say that they "are disposed to agree in the general principles on which Mr. Churchill relies in defence of the action taken by his department. They appreciate the very great difficulties which the Ministry have to face in the matter of appointing, promoting, and retaining the personnel, and their experience of those cases which require to be submitted for their previous approval leads them to suppose that the Establishment Branch of the Ministry is now conducted with a just regard for economy and efficiency of administration." They agree with the suggestion I made that the periodical increments of large amount given to the staff from time to time should be reported to them. I have come across a large number of cases where the salaries seemed to be rapidly increased to relatively large amounts. (Mr. *Dannreuther.*) They very often started low. I know a great many people came into the building believing that the war was only going to last a short time, but they complained afterwards that they could not afford to live on their capital year after year, and that they must have something more commensurate with the work they were doing, although not on a commercial scale.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

Sir *Charles Henry.*

2471. As a matter of fact, very little overtime is being paid now?—We endeavoured from the very start to avoid overtime and to have fixed rates if we could.

AERONAUTICAL SUPPLIES.

Chairman.

2472. (To Mr. *Dannreuther.*) What have you to say about paragraph 47?—The facts are as stated. When the transfer of functions took place we agreed to take over the War Office and Admiralty balances. We were perhaps somewhat rash in doing so, because we found we had to take over balances from the Admiralty dating back to 1914, which were still uncleared. We have had great difficulties—with a mixed staff drawn from the War Office, the Admiralty, and outside, and with difficulties of accommodation and increasing pressure of work—in clearing the position up. It is now well in hand, and the system of accounts has been altered to agree with our general accountancy system in the Ministry.

Sir *Charles Henry.*

2473. Do you find it difficult in general with the Admiralty to get them to prevent overlapping in the placing of contracts? Sir John Mann will perhaps answer that?—(Sir *John Mann.*) I would very much like you to ask that question of the officials of the Admiralty.

2474. No, I ask the head of the Contracts Department of the Ministry of Munitions?—I thought perhaps my answer would cover the point.

2475. It is really a serious matter, I think—it is a matter of some importance?—May I put it in this way: We have come to an arrangement with the officials of the War Office after traversing the whole field of operations where there is a common interest in the stores, and I think the chance of any overlapping or competition between the Ministry of Munitions and the War Office is reduced to the irreducible minimum almost. With regard to the Admiralty, I cannot quite make the same statement.

2476. Are any steps being taken to bring about a better condition of affairs? Am I right in saying that it is very difficult to get the Admiralty to relax any part of their individual control?—May I explain it in this way? For eighteen months past there has been a Committee, of which I am chairman—a more or less informal Committee of the Contracts and Finance Officers of the Admiralty, the War Office, and the Ministry, which has charged itself with the particular duty of minimising this overlapping. We have made, as I said, very good progress with the War Office. The Admiralty, however, latterly decided to await the decision of the Committee presided over by Lord Inchcape before they decide upon the policy they would adopt, and we are awaiting the issue of that report, and the Admiralty decision of policy following upon it.

2477. Up to the present, when orders are identical, there is not that pooling of the orders which you would like as between the Ministry and the Admiralty?—No, I cannot say there is; but I would qualify it this way, that the particular officials concerned are working with the utmost harmony in individual cases.

2478. Sir Frederick Black is still with the Ministry of Munitions?—He is at present in America. There is no individual friction between the Departments, very far from it, but no decided policy has yet issued from the headquarters of the Admiralty instructing the officials that they should endeavour to co-operate with us.

2479. May I put this particular question to you: From the Treasury point of view what is your opinion

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Sir J. MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

on this proposition—if there was a greater co-ordination between the Admiralty and the Ministry of Munitions would it be an advantage or not from the Treasury point of view?—I think it would be all to the good if we had closer co-operation.

Chairman.

2480. We now come to paragraphs 48 and 49?—(Mr. *Dannreuther.*) They are more or less historical.

2481. With regard to the end of paragraph 49, Sir John Mann, is the Department exercising control over expenditure during the currency of these contracts, and are you trying to reduce different contractors to the same level?—(Sir *John Mann.*) I do not think there is any reason for complaint with regard to the control of these particular types of contracts. They are very closely audited, contract by contract, and where there is a very large amount of materials involved there are inspectors dealing with that material.

2482. The point is rather this: Supposing you found two contracts for the same thing, one of which is drawn upon the Admiralty terms and the other on the War Office terms, do you generally find the result about the same, and where the result is not the same are steps taken to try to see that both contractors are put on the same footing?—We have had that problem very constantly before us, but as a matter of fact there are very few stores indeed where it is possible to make a comparison. I think with the exception of Aircraft Stores there are very few cases where stores are being simultaneously bought at fixed prices, and upon this varying method, and in the case of the Aircraft Stores they are all so new that we have not got sufficient data accumulated to enable us to make a comparison, but the possibility is very closely watched, and our policy is to arrive at a fixed price wherever we possibly can.

Mr. *Leif Jones.*

2483. Do your Departmental records give the information as to the realised cost per unit?—Yes.

2484. The War Office records do not, according to the Comptroller and Auditor-General's view, who also reports that from such data as are available there appear to be great differences in the results achieved by the various contractors. That is at the beginning of paragraph 49?—I have not personally gone into that, but there is one particular case referred to here that my attention has been drawn to, where there was a very high cost which was especially inquired into, with the result that is stated here. After the inquiry was completed the firm's order was converted into a fixed price contract.

2485. Are you guarding against that in future contracts? Are you keeping watch on the cost, so to speak, of those contracts?—Yes; as soon as we have data sufficient to fix prices we do so, and this other basis which is referred to here we regard as applicable to preliminary orders or experimental orders, starting out prices, and so on.

2486. You are all very busy, and preliminary orders may last a long time and cost a great deal of money; is not a close observation kept during the currency of preliminary orders?—They are generally for a fixed quantity, and that calls for revision long before the expiry date has been reached. The Contracts Officers are specially charged with the duty of watching closely the problem of prices for continuing orders.

2487. You say that it is very difficult to compare the work of different contractors on these matters?—It really is.

2488. Why is that? You must be getting identical articles from different contractors?—I thought you were referring to entering into the details of the costing, which we cannot very well do. We have the total cost, of course, easily comparable. Very rarely have we cost and percentage contracts running for the same store with different contractors.

2489. You terminate these cost and percentage contracts as soon as you can?—Yes. There are very few of them in existence. I can assure the Committee that we simply hate them.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

2490. I know your hatred for them, and that is really why I was putting the question?—There is almost a prohibition of that type of contract if it can be avoided. (Sir *Henry Gibson.*) You have not yet sent me a reply to my query. (Sir *John Mann.*) I should apologise, but personally I am not aware that I have seen any query. (Mr. *Dannreuther.*) We received your query on the 18th March, and the materials for the reply are not yet to hand. (Mr. *Garnsey.*) It was not possible to make the reply when the report was written. The actual inquiry was not received by us until the first week in March of this year, and this report is dated at very nearly the same time. (Sir *Henry Gibson.*) But I have had no reply up to the present time. (Mr. *Dannreuther.*) The materials for the reply are not yet to hand.

Chairman.

2491. With regard to paragraph 50, is all this being gradually cleared up?—Yes. The British Aviation Commission is now a regular branch of the Ministry of Munitions in Paris under Sir Charles Ellis with all our other branches in Paris, and it refers to the Headquarters in London for its contracts accounts and everything, and is subject to exactly the same rules as apply to the Ministry Departments in London. (Sir *Henry Gibson.*) One of my representatives in Paris is looking into the whole question.

ADMIRALTY CONTRACTS WITH AMERICAN FIRM.

Chairman.

2492. (To Mr. *Dannreuther.*) Have you any explanation to make with regard to paragraph 51?—That is a long historical paragraph which is more for the Admiralty than for ourselves. The particulars necessary to clear these old accounts have had to be collected since we took over in April, 1917, from the Admiralty files which were in action, and a great many of them are still in action. I do not think we have all the papers yet, or we have only just got them. There has been a big Inquiry in connection with this particular contract.

Mr. *McKinnon Wood.*

2493. What do you mean by "in action"?—(Sir *John Mann.*) In use really. (Mr. *Dannreuther.*) In use; I mean there was still work going on in connection with them; they are not dead files.

Chairman.

2494. Sir Henry is "of opinion that the circumstances of the whole case were so exceptional that the formal approval of the Treasury should have been obtained before the settlement was effected"?—Would you address that to Sir Alfred Eyles, or would you like me to consult with him? (Sir *Henry Gibson.*) We ought to have had an Admiralty official here if the Committee wanted to go into that. It is an Admiralty question.

2495. We will leave it, then, and mark it for the Admiralty.

Mr. *Leif Jones.*

2496. The sting of the paragraph, I think, is in the middle of it: "The Treasury replied without comment that they had had these statements before them." Why is the Treasury so reticent of comment? Here was a case where it seemed to me to call for vigorous comment?—(Mr. *Barstow.*) The Treasury does not like spending its breath or anything else when no result is likely to come from it.

2497. The paragraph says: "The further commitment involved, about £1,600,000, was only reported to the Treasury in November, 1915, together with other orders placed, for which no sanction had been obtained." Surely it was a case for remonstrance; it was worth so much breath from the Treasury?—I should explain that throughout the war the Admiralty, unlike the other spending Departments, the War Office and the Ministry of Munitions, have informed the Treasury, at the weekly meetings of the Emergency

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Sir J. MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

gency Committee, of their ordinary proposals for large expenditure. As I again remind the Right Honourable gentleman, the Treasury does not, in fact, have any responsibility on the subject of contracts, and consequently this information laid before us by the Admiralty does no more than keep us generally *au fait* with the course of expenditure. In March, 1915, the Admiralty notified to us that they proposed to spend this sum on the purchase of aeroplanes, or a smaller sum—£900,000. The Treasury agreed accordingly. When it was reported in November, 1915 that they had spent £1,600,000, there was no point in the Treasury giving sanction to that for a thing they had already incurred. The Treasury therefore acknowledged receipt without comment.

2498. Was there not need for comment? In March you were informed that they were going to spend £900,000; and you have weekly meetings with them, at which presumably matters are discussed. Then you learned in November that, on a contract reported to you in March of £900,000, they had spent £1,600,000, and told you nothing about it, although you had weekly meetings with them. Is not that the condition of affairs?—That is a correct statement, yes.

2499. What do you do at your weekly meetings if you do not get information as to the money that is being spent? What is the object of the Treasury wasting its very precious breath at the weekly meetings with the Admiralty?—We settle a very large number of items of expenditure at the weekly meetings, and here was a case in which the Admiralty, although they made a practice of informing us beforehand of the expenditure which they proposed to incur, had omitted to keep us informed of the full extent of their proposed expenditure.

2500. But it was the practice for you to have weekly meetings with them?—It was the practice. It was more an act of courtesy on the part of the Admiralty at that time than really because the Treasury approval was desired. In the case of munitions, in a war of this kind, the programme is not a matter on which the Treasury can keep any controlling hand.

2501. Still, it is their habit to inform you?—Yes.

2502. And, as a matter of fact, there were £700,000 of additional orders, of which nothing was said to you, and still you did not think it worth while to say to the Admiralty, "You have usually told us of these things. We have had weekly meetings with you, and for six months you have been spending this large sum on these particular orders, and you did not say anything to us about them." I still think, after your explanation, that a remonstrance was due from the Treasury. Did you not, even at your weekly meetings, say something severe?—I am afraid I cannot tax my memory with that.

2503. Do you attend the weekly meetings?—Yes. As a matter of fact, these meetings are held twice a week. (Sir *Henry Gibson.*) The accounting officer of the Admiralty took the view that Treasury sanction was required for this, and, in view of the somewhat non-committal terms of the Treasury reply, he did not feel authorised in passing the expenditure without the express personal authority of the First Lord of the Admiralty.

2504. That is to say, the Accounting Officer took a rather more severe view of the thing than the Treasury themselves. Do you accept that, Mr. Barstow?—Possibly Mr. Barstow would not know the line adopted by the accounting officer, as it would not come before him; it comes before me, because I see the papers.

2505. Are you easy in your mind when you find the Accounting Officer takes a more severe view of the duty of the Treasury than the Treasury themselves?—(Mr. *Barstow.*) That is a difficult question to answer, Sir, but I do not think that the Treasury action or lack of action in November, 1915, was open to any criticism.

Sir *Charles Henry.*

2506. You said that it was an act of courtesy the Admiralty coming to you to sanction expenditure?—I described it in that way because, as I explained, neither the War Office nor the Ministry of Munitions

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

do come to us for sanction of their programmes. The Admiralty, by an arrangement made at the beginning of the war, said: "We will inform you of all large orders over £100,000."

2507. You gave your sanction to the original expenditure of £900,000, did you not?—Evidently yes.

2508. If you had not approved of that expenditure of £900,000, and the Admiralty had insisted upon it, then it would have been a question for the Cabinet to decide?—Yes.

2509. At that time evidently, according to this paragraph, the Treasury had lost all control over the Admiralty expenditure. Do you admit that?—It was clear that the Treasury was not in a position to say, with regard to such items as aeroplanes, that there should be a reduction in the demand at that time. At a later period, this being an order on the United States, when Exchange questions became acute, the Treasury again intervened.

2510. Look at the last sentence of the paragraph: "The First Lord of the Admiralty sanctioned the payment of 11,000,000 dollars." It seems to me that that was without Treasury sanction?—Quite so; the Admiralty had stepped in and taken action.

2511. This is a very large sum of expenditure. The Treasury, by authorising it after the event, would only make themselves liable and responsible to the House of Commons for concurrence in that expenditure, and the Treasury would naturally not desire to be placed in that position. I do not care who was the First Lord of the Admiralty, but in that case has not the Treasury the power, or would they not consider that they have power, if they are practically disregarded, to go to the Cabinet?—Yes, on any matter the Chancellor of the Exchequer can, of course, go to the Cabinet.

2512. But in this instance, although 11,000,000 dollars were expended without the sanction of the Treasury, it was not thought of sufficient importance to go to the Cabinet about?—Presumably not, but I cannot say.

2513. I should like to ask one other question of Sir John Mann. At the present time does the Admiralty place any of these contracts with America, or do they all come now through the Ministry of Munitions?—(Mr. *Dannreuther.*) They do. (Mr. *Barstow.*) I can answer that; the Admiralty orders are placed in the United States of America through the British Purchasing Commission there or through their own agents there. They are all focussed by an organisation under the Treasury known as the American Board and passed in this country.

2514. So that the Admiralty now does come to the Treasury before placing orders in America?—Yes. There is one complete organisation by which all Departments who wish to place orders in America have to submit their requisitions for authority to a Board known as the American Board.

2515. At the present time is such a state of affairs likely to recur, that the Admiralty should make a big capital expenditure without any Treasury sanction whatsoever?—No; and this is an exception to the Admiralty rule throughout the war. I cannot say so much for the other Departments, but this is one instance in which the Admiralty have not acquainted the Treasury with prospective expenditure on a large scale.

Chairman.

2516. With regard to paragraph 52, I understand that these are entirely unvouched transactions?—(Mr. *Dannreuther.*) The accounts have been recently closed, but the final vouchers have not yet arrived. I understand the procedure has been quite normal except that the original receipts and invoices are still in America and only duplicates have been sent over.

2517. (To Sir *John Mann.*) Do you want to get back to the office, Sir John?—I should.

2518. There is only one more paragraph with which you have to deal, No. 69?—It would be a convenience if you cared to take it now. (Mr. *Dannreuther.*) And 68. (Sir *John Mann.*) With regard to preferential freight rates, Mr. Dannreuther knows almost as much as I do

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Sir J. MANN, K.B.E., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

but I have some knowledge of them if you care to take that paragraph just now.

2519. We will take paragraph 68 first?—From the contracts point of view it interests us in this way, that an attempt was made to carry out this plan, but in practice it really broke down. It was very much more complicated than had been anticipated, and it was superseded by the arrangement now in force, under which all the North Atlantic lines are requisitioned and any benefit by the saving of freight accrues directly to the Government. We get it at the source instead of attempting to get it at the end of a long train of transactions. Where we had direct purchases we could pick that up, but so many of the imports, although for ammunition work, passed through so many hands before they actually reached the Government that it was impossible to bring them back to the source and make the contracts in such a form that the difference in freight could be picked up. The system that has been in operation for more than a year past has overcome all the difficulties that are indicated here.

2520. And no doubt while the system was being evolved you did suffer from the heavy freights?—It is very difficult to tell. We did recover moneys on the direct imports, but on the indirect imports we cannot tell.

2521. What about paragraph 69, which deals with the contracts in Switzerland and France?—Really, Sir, that applies to the accounts of the contracts which Mr. Dannreuther will be able to explain.

(Sir John Mann withdrew.)

ARMY RESERVE MUNITION WORKERS.

Chairman.

2522. (To Mr. *Dannreuther.*) Do you desire to make any explanation with regard to paragraph 53, Mr. Dannreuther?—The facts are as stated. The new scheme was carried out in a great hurry. It went before the War Office and the Labour Adviser to the Government, and it was agreed to by them before it was submitted to the House of Commons. I think then the Parliamentary Secretary did not think the Treasury were concerned, but within three days of that statement it was reported to the Treasury. It came to my personal notice, and I reported it to the Treasury, and we got their covering sanction, or rather they gave their sanction on the understanding that the net cost per head falling on public funds would be decidedly less than in the case of the War Munitions Volunteers, which they took at £15 a year, a guesswork figure. As a matter of fact, on the basis of the last financial year I find that the War Munitions Volunteers cost £11 per head and the Army Reserve Munition Workers £7 10s., so that they have come out much cheaper.

2523. The Army have come out much cheaper?—The Army Reserve Munition Workers have come out cheaper so far as the cost per head to the Government is concerned. That is for all the allowances they receive. The peculiarity of this particular case was that there was an extra allowance given for children, 2s. 6d. a week when there were four or five children, and 5s. per week when there were six or more children. I do not know the exact reason for that. It may have been that the men they wanted to get back from the Army who were fit only for home service were getting separation allowances in proportion to their families, while they were in the Army, and no doubt some of the people exempted had been exempted on the ground of having big families. They wanted to get hold of the men who were fit for the Army and substitute for them men who were fit only for home service or others fit for general service but exempted on the condition that they were engaged upon work of national importance.

2524. (To Mr. *Barstow.*) The Treasury thought that this was a new departure, Mr. Barstow, to raise wages by means of children's allowances?—Yes, that is so.

2525. You still hold to your regret that it was done?—It is a precedent which, if it spread, might lead to some singular consequences, but, fortunately, it does not appear to have spread to the ordinary Government employees.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

2526. Would the Treasury not give its sanction to such a practice if it spread?—No attempt has been made to revise civil wages on the basis of the number of children in the family of the workman.

2527. I take it if such a thing did come before you you would not sanction it?—Unquestionably the Treasury would protest against it. (Mr. *Dannreuther.*) The cost of these children's allowances has been £16,000 out of £375,000, the total cost of the scheme.

2528. I am talking at present not of the total cost, but of the principle.

SUPPLIES BY RAILWAY EXECUTIVE COMMITTEE.

Chairman.

2529. (To Mr. *Dannreuther.*) Have you anything to say about paragraph 54?—There is nothing on that. This matter was taken in hand rather later than other cases in view of the peculiar position of the railways under the Government guarantee. It was considered that the railways were more or less of a Government Department, and it was not so important to press on the reconciliation. (Mr. *Garnsey.*) As a matter of fact, we have received full and detailed statements from the Railway Companies of all materials they received up to the 31st March, 1917—that is materials sent to them on free issue. I have already given an account of that. From that date onwards it is charged to them, and we are not sending any more materials on free issue. The agreement with the Ministry records up to the 31st March, 1917, I am afraid, has not yet been completed; it is in course of being done, but it will take some little time. Some of the railways have been already agreed.

Mr. *Leif Jones.*

2530. Do I gather that you had to go to the railways to know what you had supplied to them?—In the same way as we had to do with other contractors.

Sir *Charles Henry.*

2531. Has a record been kept of these free issues?—Yes, there has been some record, but it is not a complete record, of course; a complete record is now being built up.

2532. And, if necessary, the quantities of the free issues and the value of them could be ascertained?—We hope to have them with the assistance of some records in the Ministry.

SUPPLIES BY INDIAN RAILWAYS.

Chairman.

2533. (To Mr. *Dannreuther.*) Are you going to clear up this matter which is dealt with in paragraph 55?—I understand that has all been cleared, with the exception of a few trifles, and that the cash balance has been also reduced; in fact, the position now is that we owe the Indian Railways a small sum of £300 odd.

2534. What about the ownership of the plant?—That point is not yet settled.

2535. That is in process of being settled—I mean it is not overlooked?—So I understand.

TIMBER SUPPLIES.

Chairman.

2536. (To Mr. *Dannreuther.*) What about the timber supplies referred to in paragraph 56?—I think we have got to admit what is stated that the blame possibly requires sharing by the Office of Works. I am told we have always had great difficulty in getting from them particulars as to the consignees. Mr. Garnsey will confirm that. (Mr. *Garnsey.*) Recently very considerable progress has been made towards clearing these accounts with the Office of Works and the Board of Trade, and I believe invoices have recently been sent out as a result of statements received to the extent of well over half a million sterling. There are still a considerable number of statements to come forward, but the work is being pressed on as rapidly as possible.

2537. You agree with Mr. Dannreuther that there was a general weakness in the accounting arrangements of

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

of the Ministry as to the supplies to the Office of Works?—(Mr. *Dannreuther.*) I do not think we have been more to blame than they have. (Mr. *Garnsey.*) With regard to the £60,000 referred to by the Comptroller and Auditor-General, I believe the papers that were sent over by the Office of Works were lost, and that has delayed the clearing off of the Vote. We have received duplicate copies of the papers, but not all the supporting evidence, and I am not sure whether we have sufficient evidence to enable a charge to the Vote to be made.

2538. Sub-paragraph (b) will come up on the Appropriation Account?—(Mr. *Dannreuther.*) The importance of buying through the central timber organisation is fully recognised by the Department. There was an exception made at Henbury. At that time it was important that matters should go forward very rapidly, and sanction was given to the contractors to buy all the timber direct which they could get hold of. (Sir *Henry Gibson.*) You are not doing it now? (Mr. *Dannreuther.*) I understand it is not being done, but the importance of buying through the central organisation is appreciated.

2539. Do contractors also buy timber direct for Gretna?—(Sir *Henry Gibson.*) I have a note that they did. (Mr. *Dannreuther.*) I expect so, but that is a good deal earlier.

HOUSING SCHEMES—CAPITAL EXPENDITURE.

Chairman

2540. (To Mr. *Dannreuther.*) Paragraph 57 is only historical, but with regard to paragraph 58b, which deals with Rudheath, how did the Young Men's Christian Association come to be contractors for builders?—They were employed by one of the large firms employed by the Explosives Department. This firm in question, who had rendered very great service to the Ministy, were told to put up these hostels, and they employed the Young Men's Christian Association. The sum of £15,000 was authorised and the actual cost was £21,500, but we have the satisfaction to know that it was cheap, even after allowing for the excess, because it worked out at about £37 10s. a head, which I am told is a good figure.

Colonel Sir *Herbert Jessel.*

2541. I thought you were referring in your answer to Sheffield?—No, it was Rudheath the Chairman asked about.

2542. What about Sheffield? Was it a big sum?—We have no information ourselves that there has been this rapid deterioration. The Sheffield hostels were built of timber, but I do not know where Sir Henry gets his information from. I made inquiries about the rapid deterioration, and, of course, it is a fact that timber does deteriorate.

2543. But it should not deteriorate in such a short time?—No. (Sir *Henry Gibson.*) I must have got the information from the Munitions Department papers (Mr. *Dannreuther.*) I made special inquiries this morning about these housing schemes, and the information furnished to me is that they are not aware of any exceptional deterioration.

2544. Is a large sum involved?—As to the cost of the buildings at Sheffield, a great many more hostels were built there than were ultimately required, and they were removed to different places. The Sheffield programme was certainly over-estimated to start with.

Mr. *Leif Jones.*

2545. What were the municipal bye-laws which you broke in erecting them?—I understand that whenever you put up a temporary timber structure you break the bye-laws, and that is true of all other cities. The Local Government Board are at present considering the revision of these bye-laws in contemplation of post-war problems.

2546. Is it only by the use of timber that the bye-laws have been broken?—Yes, by the erection of timber structures and semi-permanent houses generally.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

Sheffield was one of the very earliest when timber was plentiful. Later on timber was not plentiful, and then when we had to build hostels and other houses of that kind we had to go back to brick or concrete. (Sir *Henry Gibson.*) I observe that from Lord Dunluce's report of the 31st August, 1917, it would appear that "the roofs are beginning to leak in several places and the iron chimneys to perish." And from the same officer's report in February, 1917, "the baths are said to be in a bad condition, the floors in the cubicles are draughty and some are rotten, and the sanitary conveniences are dirty."

STATISTICS OF OCCUPATION.

Chairman.

2547. (To Mr. *Dannreuther.*) With reference to paragraph 59, I believe the Sheffield scheme was the worst, was it not?—Yes, all through the hostels have been worse than the cottages. The truth is, people do not like hostels, they do not like the discipline and supervision inherent in hostel life.

Mr. *Leif Jones.*

2548. When did you find that out?—Long after they had been put up.

2549. All of them?—Hostels were the quickest things to put up and the cheapest, and in view of the crowded conditions of the time it was considered essential to do something. If we had not done this there would probably have been an outcry, but no doubt there has been a loss on hostels generally.

2550. When was Abbey Wood put up?—Abbey Wood has been converted into a men's hostel for men from Erith and it is expected to be filled without difficulty.

2551. When was it converted into a hostel?—I am afraid I do not know the date. There is no doubt that a mistake was made in building at once for the full numbers asked for at the time, and whenever hostels are put up now they are put up block by block after the experience we have had with hostels.

2552. You discover now that hostels are not popular, and I wanted to know whether you had cut down your programme?—Yes, hostels are not being built to the same extent now. It is all right at places like Gretna and so on, where you are in isolated parts and there is no alternative. Generally the people prefer to overcrowd the lodgings, where they have more freedom, rather than go into hostels, but if the hostels were not there there would be a great complaint against the Ministry on the ground of overcrowding. If they choose to go and overcrowd lodging places deliberately while hostels are vacant for them we are saved from that reproach.

2553. And also you have a great deal of waste accommodation to save yourselves from reproach?—That is so.

2554. It is rather a dear price to save your reputation?—It is. These hostels were pressed for by Town Councils and various other people in the early times.

2555. Quite so; the Town Councils do press for them because they find this over-crowding going on, but cannot you and the Town Councils together prevent the overcrowding when you have got this accommodation in the hostels?—There is now a Central Billeting Board which enables us to find out where people can be accommodated much more readily. The objection to hostels I believe is slightly on the wane.

Colonel Sir *Herbert Jessel.*

2556. What do you mean by a hostel?—It is a place with cubicles—not a bungalow or a cottage.

2557. They are ordinary huts, I suppose?—Ordinary huts for single men or single women.

2558. One storey buildings?—Yes.

2559. "Hostel" sounds a grand name?—They are cheap things to put up, and they accommodate a lot of people. I am told the dislike for them is now on the wane, but lodging-house keepers at the present moment are anxious to get lodgers, because of the assistance in catering when they have more coupons per household. That has rather gone against us.

2560. (To

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

RUNNING EXPENSES AND ADMINISTRATION.

Chairman.

2560. (To Mr. *Dannreuther.*) What you have already said applies to paragraph 60 in the same way?—Yes.

2561. Apparently the scheme generally is a loss?—Hostels, yes. All I can say is that the loss is possibly less than the reproach to the Ministry would have been if we had sat still and done nothing.

Mr. *McKinnon Wood.*

2562. You do not cater for them in the hostels?—There are canteens often attached to the hostels. One of the difficulties referred to here in raising prices was due to the fact that the hostels proved unpopular, and also that at times there was labour unrest, and it was not a time to put the prices up. The Explosives Department have always been in a different position because there were no alternatives. If you want to live at Gretna you are delighted to go into one of the hostels there because you have not much alternative. (Sir *Henry Gibson.*) I understand the general qustion is being considered by a sub-committee of the Select Committee on National Expenditure; it is mainly an administrative question.

Chairman.

2563. There is said to be a building rented at £250 per annum handed over by the Explosives Department free of rent, with an allowance of coals to a private individual to run as a labour barracks?—(Mr. *Dannreuther.*) I understand there is no justification for that suggestion of £1,000 a year profit. It was a casual remark made in one of the papers by one of the local accountants who has since revised his opinion, and accepts the contractor's claim that the contract was not in fact a remunerative one.

2564. Have you anything to say on the question of Staff which is referred to in paragraph 61?—That again is a difficulty. The Staff was taken on with reference to expected occupation and it cannot be changed constantly with variations in the number of occupants. The standard requirement is one matron and three maids for 100 girls. That is one of the difficulties if the place does not fill up well, because, as long as you keep your place open you have to keep a staff. The central purchasing referred to was tried experimentally, and proposals made for extending it, but action ceased owing to rationing and control of food prices. The whole position was changed. The same thing applied to the central purchasing for the supply of canteens. The control of food prices and the rationing system did away with the necessity.

LOANS FOR PERMANENT HOUSING SCHEMES.

Chairman.

2565. We now come to paragraph 62?—(Sir *Henry Gibson.*) I have had that information since. (Mr. *Dannreuther.*) I have sent a very long detailed report on these housing schemes.

CANTEENS.

Chairman.

2566. Paragraph 63—canteens?—(Mr. *Dannreuther.*) We welcome very much this testimony to the successful result of our long fight to make canteens more or less self-supporting.

Mr. *Leif Jones.*

2567. I see that the defence for your loss is that it is all the fault of the Control Board?—I will not say that entirely, but they have been very much more lax in allowing writes-off of losses on canteens. I think they are coming round now to our point of view.

2568. Your policy, I understand, is to provide food at a low price consistent with financial solvency?—We give the building free with its initial equipment, and we give the lighting and fuel for heating, but not the fuel for cooking. The fuel for cooking, the service, and the actual cost of the food we say ought to be recouped by the charges made for the food.

2569. Where was this canteen which lost £17,000 a year?—That was at Leeds. The position has very much improved, and the loss reduced, but it has been one of our worst from the point of view of loss. The second one is also at Leeds, and the fourth one is in Scotland. I may say that last year the Controller of Factory Audits took over the audit from a local firm of auditors, and set up a new accounting system of records, and from May, 1917, that particular factory has worked its canteen to a steady profit which has more than wiped out the loss, without any increase in the sale price of the articles supplied.

Chairman.

2570. Merely by good management?—It is entirely a question of management; as a gentleman who joined my staff recently said, he cannot make out how a canteen can be worked at a loss.

Mr. *McKinnon Wood.*

2571. Can you tell me if these losses appear in the accounts of the Control Board, or only in the accounts of the Munitions Department?—These particular losses were in the accounts of the Munitions Department; they are carried in suspense with the idea of either working them off out of subsequent profits or else getting a clearance from the Treasury with authority to write off the loss to a certain date, so that they may start clear.

2572. These are examples of management by the Control Board?—These are examples of management under the Ministry of Munitions, but the Liquor Control Board acted as our advisers, they were appointed to be so.

2573. It is stated in this paragraph that the Ministry invited the Central Liquor Control Board to undertake the general responsibility for their organisation, and that you paid part of the expense?—We bearing the expense, yes.

2574. They actually by their management made a big loss on subsidised canteens; you explained how you subsidised them a short time ago?——(Mr. *Watson.*) Yes.

2575. Are they all dry canteens?—(Mr. *Dannreuther.*) I would not like to say that, but they are chiefly furnishing luncheons and teas.

2576. They sell beer and so on?—They are for serving meals to the workers.

2577. With beer and spirits?—(Mr. *Watson.*) Not as a general rule; I could not speak definitely on that, but I do not think they are put up for that purpose at all. (Mr. *Dannreuther.*) A great many of them are for women only. A great many of our national factories are more or less run by women.

2578. Are they licensed?—(Mr. *Watson.*) I think not, but I think we should make enquiry on that subject and let you know if any hold a licence.

2579. I think we should like to know that?—(Mr. *Dannreuther.*) I will note that.

Sir *Charles Henry.*

2580. Do these canteens run concurrently with the Y.M.C.A. or Y.W.C.A.?—The Y.M.C.A. sometimes run them for us. (Sir *Henry Gibson.*) They would not be duplicated. (Mr. *Dannreuther.*) No.

2581. What I want to know is, are there any of your big factories where you have Y.M.C.A. or Y.W.C.A. canteens? You would not have your own canteens as well in the same factories?—(Sir *Henry Gibson.*) That depends on what the accommodation of the Y.M.C.A. is. (Mr. *Dannreuther.*) There are varieties of canteens at Woolwich run by different organisations.

Chairman.

2582. Paragraph 64 deals with rather a curious principle—namely, helping wages by food?—That is rather a particular

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

a particular case—that took place at the largest filling factory in this country, the one to which Mr. Leif Jones was referring the other day, where they have been trying to solve the difficulty of finding a remedy and preventive for T.N.T. disease, and in the interest of T.N.T. workers it was considered necessary to arrange that the women willy-nilly should have plenty of food and be made to eat it. That was brought about by getting them to agree to a certain rate of wage per hour, plus two meals, breakfast and dinner, in return for a reduction of 10d. a day from their wages, all expenditure in excess of 10d. being reckoned as part of their wages. It is said to have worked very well, and the health of the workers has enormously improved.

2583. It was a health question?—Yes.

SILVERTOWN EXPLOSION.

Sir *Charles Henry.*

2584. Referring to paragraph 65, it is stated there that the contractors at Silvertown had been employed as agents of the Ministry since June, 1915. What am I to understand by that? Were they contractors or agents?—They were contractors to the Ministry. I am told it was operated by them as agents for the Ministry, with a complete indemnity from the Ministry against any explosion risks.

2585. What do I understand by "as agents for the Ministry"? Did these contractors work this factory to a profit, or did they work while the Government were responsible for the working and obtain the profit or bear any loss?—I am afraid I do not know the exact terms, but I know that they had a complete indemnity.

Chairman.

2586. (To Sir *Henry Gibson.*) You do not imply, Sir Henry, that the firm were under contract with the Government?—Yes. (Mr. *Dannreuther.*) There is a long agreement, under which the Company were working the business. Do you want to know the terms with regard to remuneration?

Sir *Charles Henry.*

2587. No, all I want to know is this, whether they were purely acting in this instance at Silvertown as agents for the Government and not working for their own gain?—The agreement provided that the work was to be done by the Company as agents of the Ministry, and that the Ministry should indemnify them against certain losses and liabilities, including third party liabilities arising from the manufacture. We had legal advice that the Ministry was liable to indemnify the Company under the agreement.

2588. What remuneration do they get as agents?—(Mr. *Watson.*) There are several clauses in the agreement.

2590. Tell me roughly?—There was a fee equal to £5 per cent. on the total cost of alterations to buildings. They had total cost, plus 5 per cent., as a general rule.

2591. They worked on the cost and percentage basis, the percentage being 5 per cent.?—Yes, practically that was it.

2592. Sir Henry Gibson reports, "although not technically admitting liability, the Government has, in fact, been meeting the claims." According to the contract the Government was liable?—(Sir *Henry Gibson.*) I mean technical liability as regards the individual. (Mr. *Dannreuther.*) The Treasury Solicitor advised that cases would lie against the Company, and we had given the Company a complete indemnity. (Mr. *Watson.*) The manufacturers undertake work as agents of the Ministry, and, as a consequence, the Ministry indemnify them against all the following matters arising out of their undertaking.

2593. It was an *ex gratia* payment on behalf of the Government?—It is a complete indemnity given to the firm. (Mr. *Dannreuther.*) We dealt directly with the people, and not through the firm, in dealing with the loss. (Sir *Henry Gibson.*) I meant against all

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

persons interested. Neither the firm nor the Government were technically liable for compensation.

2594. Are they not liable under the Workmen's Compensation Act?—(Mr. *Watson.*) Those are third party claims. (Mr. *Dannreuther.*) It would have had to be fought out in the Law Courts.

Chairman.

2595. Paragraph 66, "purchase of nitrate of soda from the Board of Agriculture and Fisheries" is the Vote of Credit?—Yes.

MOTOR TRANSPORT.

Chairman.

2596. Referring to paragraph 67, I see you have effected an economy there, in the first part of the paragraph at all events. Have you got an answer yet, Sir Henry, to the communications referred to on page 26?—(Sir *Henry Gibson.*) Yes. (Mr. *Dannreuther.*) There is a proper system now in force. (Sir *Henry Gibson.*) The Department have admitted the weakness pointed out. They say the duties have been transferred to a new branch, which is working out an efficient system.

2597. Have you secured co-ordination between yourselves and the War Office?—(Mr. *Dannreuther.*) On this latter point? That is still not yet settled. We are expecting an answer from the War Office as to whether they will transfer their part of the work entirely over to us.

2598. It is not lost sight of?—No, not at all.

ACCOUNTS OF CONTRACTS IN SWITZERLAND AND FRANCE.

Sir *Charles Henry.*

2599. (To Mr. *Dannreuther.*) In the second sub-paragraph of paragraph 69 it is stated: "at the 31st of March, 1917, cash advances to the amount of two and a half millions were recorded against the Ministry representative, while the value of material issued to him reached about three million pounds." Did he get material and cash payments as well?—There was cash and metal issued to our representative.

2600. It looks to me that your representative got two and a half millions in cash and three millions in material?—Probably, and he distributed it; he was our general representative for making contracts and distributing material to the various firms in Switzerland and France.

2601. He distributed part in material and part in cash?—Yes.

2602. Then you were responsible for payment on delivery?—Yes, the material is all charged up to the contractors and recovered from their bills *per contra*, so that we have always been all right as far as cash is concerned.

2603. May I again suggest that, instead of "advances" there, it should be "payments on account"?—(Sir *Henry Gibson.*) Certainly. I am afraid we have stereotyped the expression "contractors' advances" to cover "payments on account."

Mr. *McKinnon Wood.*

2604. It is a different thing—Sir Charles is right, because to give a man an advance is quite different from paying him an account in business life?—I will take a note of that.

EXPENDITURE BY THE IMPERIAL MUNITIONS BOARD.

Chairman.

2605. (To Mr. *Dannreuther.*) Have you got control over the Imperial Munitions Board mentioned in paragraph 70?—I think so—quite sufficiently. They always had a certain amount of latitude as to the method of producing goods required; they stand to us as we stand to the War Office. At that time we did not have to go to the Treasury for specific sanction, but as a matter of fact

6 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., Mr. GARNSEY and Mr. WATSON. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

fact a good many cases really did go before the Treasury, because the Imperial Munitions Board quoted the prices, which included additions for amortisation, and then we went to the Treasury and got sanction of so much expenditure in Canada for so much of some article at so many cents per lb. plus so much amortisation; that was practically admitting that there was to be expenditure on new factories or extensions. There were seven factories put up by them at a cost of about fourteen million dollars, and about nine million dollars have been written off. The Imperial Munitions Board issue all their supplies to us at standard prices, and they have made a profit—it is a paper profit, it is true—upon them which has enabled them to write down these buildings and plant. (Sir *Henry Gibson.*) I have not had any reply to the question referred to in the paragraph. (Mr. *Dannreuther.*) They would go to the Treasury now unless it was something quite small under the new rules—in fact, a recent case went to the Treasury by letter the other day showing the cost of converting certain plant for the purpose of producing 18-pounder shrapnel, which is now wanted again. (Sir *Henry Gibson.*) That is under the £50,000 limit. (Mr. *Dannreuther.*) Yes.

2606. You are keeping a watch upon the lands and buildings of the factories?—Yes, the Imperial Munitions Board is a regular branch of the Ministry.

REWARDS AND ROYALTIES TO INVENTORS.

Chairman.

2607. (To Mr. *Barstow.*) With reference to paragraph 71, Mr. Barstow, what about your consideration of these rewards and royalties to inventors?—The Treasury are about to appoint a Committee to look into this question of rewards and royalties.

UNSATISFACTORY STORE ACCOUNTS.

Chairman.

2608. (To Mr. *Dannreuther.*) It appears from paragraph 72, Mr. Dannreuther, that you have had to alter your system of store-keeping?—Yes. Do you want me to give you the story shortly of what has happened?

2609. No, I do not want it?—You have heard a good deal about it.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

SALVAGE DEPOT—UNSATISFACTORY ACCOUNTS.

Chairman.

2610. (To Mr. *Dannreuther.*) What about this paragraph 73, which deals with the Salvage Depôt?—The salvage is a little bit different. After full discussion with everyone concerned we do not consider that any effective method of accounting for salvage as it arrives can be devised. The goods arrive from France on a general bill of lading, without detail as to contents, and the material has to be sorted and then inspected and graded. The only practical way of securing stocks against theft is to inclose your depôts with barbed wire fences, and to put plenty of police on the entrance, and that has been done. When you have repaired your articles then you issue them out and prepare issue warrants, advice notes, and so on. No other type of accounting for the salvage as it arrives is any use. The Comptroller of Salvage says that he would be delighted if any member of the Committee would like to go down with him and see one of our salvage depôts or dumps, so that he might realise on the spot the difficulties which are inherent to the handling of salvage.

Sir *Charles Henry.*

2611. When the salvage is sorted out and classified, how do you charge it up? Do you charge it up against the different departments?—As it is issued it is charged up at the standard prices; some labour may be put on to it to repair a box or a cartridge case, and it is then charged up at exactly the price of the cartridge case.

Chairman.

2612. That is charged to the department at the price it is worth in its present condition?—I understand so.

2613. The salvage work is being done in France now, is it not?—(Mr. *Watson.*) The preliminary sorting is done in France.

STOCKTAKING.

Chairman.

2614. (To Mr. *Dannreuther.*) Is there anything on paragraph 74, Stocktaking?—Considerable progress is being made with stocktaking. Out of 142 stores and bonds now in existence stock has been taken at 114. Net deficiencies are working out at a very small amount, which I think is very satisfactory.

(*The witnesses withdrew.*)

Tuesday, 11th June 1918.

MEMBERS PRESENT:

Sir Henry Craik.	Mr. Jowett.
Sir Charles Henry.	Sir Robert Williams.
Mr. Higham	Mr. McKinnon Wood.
Mr. Leif Jones.	

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT 1916-17.

Mr. S. DANNREUTHER, C.B., and Sir GILBERT GARNSEY, K.B.E., called in; and Examined.

Chairman.

2615. I should like first to congratulate Sir Gilbert Garnsey upon the honour for which he has worked very hard?—(Sir *Gilbert Garnsey.*) Thank you, sir. (Mr. *Dannreuther.*) There are two points upon which I promised to reply to Mr. Leif Jones. One was with regard to the sale of alcoholic liquors in canteens. I understand that at Woolwich and Farnborough there are canteens with club licences to sell beer. These are an inheritance from the War Office practice which it was considered inadvisable to disturb. The general rule in our national factories is not to allow the sale of alcoholic liquors. The Central Liquor Control Board has

11 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., Mr. S. DANNREUTHER, C.B., and Sir G. GARNSEY, K.B.E. [*Continued.*

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

has power to give certificates for the sale of 2 per cent. beer, and has done so in four cases only, with which we are concerned; so that the statement I made was approximately correct. I am now in the position to give you the cost of the experiment in converting and reconverting certain distilleries in connection with the production of acetone. The net cost of the experiment, after crediting the account at current prices only in respect of acetone produced, remains at about £186,000.

Mr. *Leif Jones.*

2616. That is the information with regard to the distilleries?—Yes. The cost of adaptation of the six distillers, including new plant, amounted to about £121,000. When we shut down we sold to the distillers or elsewhere the new plant which belonged to us, and realised some £20,000. The cost of reconversion has been under £27,000, but of this sum £20,000 is in respect of standing charges during the period of reconversion, so that the actual cost of reinstatement, after obtaining credit for betterment effected during our occupation, has amounted to between £6,000 and £7,000.

2617. Have you the total amount of the whole thing?—The total cost of the experiment?

2618. What has been the net cost to your Department of the experiment?—About £186,000.

MINISTRY OF MUNITIONS (ORDNANCE FACTORIES) APPROPRIATION ACCOUNT, 1916-17.

DELAYS, ETC., IN ACCOUNTING AT THE ORDNANCE FACTORIES.

Chairman.

2619. (To Mr. *Dannreuther.*) Have you any explanation to give of paragraph 3, Mr. Dannreuther, as to these delays in accounting at the factories?—The same difficulties in regard to fixing prices and rapid debiting of consignee arose here as in the case of the purely Ministry transactions. We have already discussed the remedial measures.

2620. The paragraph says: "It was anticipated that material improvements would result"; that has been the case?—Certainly, and you will observe that the outstanding amounts have been considerably reduced.

2621. Are they far enough reduced?—There are still big items outstanding. The Ministry have not been able to get particulars; the great delay is over timber with the Office of Works.

Mr. *Leif Jones.*

2622. What is the figure outstanding at the 31st March, 1918?—I am afraid I do not know. (Sir *Gilbert Garnsey.*) Of this figure of £2,000,000 odd there is only about £650,000 on the Ministry of Munitions Accounts. It is not all Ministry of Munitions. (Mr. *Dannreuther.*) It is partly wages which do not happen to have been paid on the date. I have a complete list of the items if you would like to see them.

2623. Supposing there were no arrears, what would the figure normally stand at?—(Sir *Gilbert Garnsey.*) It is rather difficult to give a normal figure, but that figure of £650,000 is not very high, I think. (Mr. *Dannreuther.*) Wages alone are about £10,000,000 per annum, and if there happens to be a week's wages outstanding that makes a fairly big sum.

ACCOUNTING FOR TIMBER SUPPLIES FROM OFFICE OF WORKS.

Chairman.

2624. (To Mr. *Dannreuther.*) Have you anything further to say about paragraph 4?—This is the same thing we have had on our own account. The responsibility has to be shared by the Office of Works and by the War Office, who were then dealing with the timber supplies. There has been great difficulty with regard to prices, and in getting particulars of the consignees. I do not think the difficulties are entirely got over yet. (Sir *Gilbert Garnsey.*) No, we are still waiting a number of accounts from the Office of Works; we are pressing for them, and we hope they will be in before long. We are clearing them up as rapidly as possible. (Mr. *Dannreuther.*) They are purely inter-Departmental difficulties.

Mr. *Leif Jones.*

2625. I am more concerned with these inter-Departmental matters than any others; this is the fault of the Office of Works, I understand?—(Sir *Gilbert Garnsey.*) We have to wait for information from the Office of Works before we can charge our contractors.

2626. This is timber supplied by the Office of Works?—Yes.

MINISTRY OF MUNITIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

2627. Is it not a long time since the Office of Works supplied any timber at all?—It is now taken over by the Board of Trade.

2628. Nominally, but really it is the Timber Control Department?—(Mr. *Dannreuther.*) Yes.

2629. It is some time since the Office of Works ceased to buy timber at all. Is it still the Office of Works who have not supplied all the accounts?—(Sir *Gilbert Garnsey.*) That is so.

2630. Do you know why?—I have no knowledge at all.

2631. (To Sir *Henry Gibson.*) Can you give us any more light on this paragraph, Sir Henry? The Office of Works has not rendered its accounts; do you know what amount is outstanding?—No; I will try to find out, but I have not got the figures here.

2632. You say a very small test examination has disclosed the omission from the store records of a delivery of sleepers?—(Mr. *Dannreuther.*) They have been traced and taken on charge—that is by the ordnance factories.

2633. Do you suppose there are other omissions of a similar character?—I do not think so—not that I know of. They have had to put their own provisional prices on for the purposes of their accounts at Woolwich.

2634. That is rather a different point; but this was really an admission of a delivery, and if the Office of Works does not render its accounts and your records of delivery are imperfect, the prospect of adjusting this account diminishes with every day that passes?—(Sir *Gilbert Garnsey.*) We are bound to get a few errors. I do not suppose that is the only error that Sir Henry would find if he went through the entire records, but we know of no other errors at the moment.

2635. Have you a feeling that it does not matter much when it is one Department dealing with another?—We have no such feeling, and we think it matters a great deal, we have been really pressing the Office of Works to get their statements forward, and they are coming forward slowly—not so rapidly as we would like. Beyond making representations we can do nothing.

2636. I do not see what excuse the Office of Works can make for not putting in its records. They are no longer very busy, they are not providing new buildings everywhere now, and they have not very much to do, and I should have thought they might furnish these records?—That is what we think, of course.

2637. I am glad you agree with me, and I hope you will continue to press them.

Sir *Charles Henry.*

2638. Until Woolwich gets an invoice or an account from the Office of Works they are absolutely in the dark as to the price they ought to be charged for that article?—That is so.

2639. And in the case of wanting to invoice that article out to somebody else they do not know the price?—They have to put an estimated figure on to the store. (Mr. *Barstow.*) I am told the whole of the records of the Office of Works have gone over to the

MINISTRY OF MUNITIONS (ORDNANCE FACTORIES) APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

Timber Controller, which will perhaps explain the delay. (Sir *Henry Gibson.*) I will have the matter looked into generally, and see what can be done to expedite matters.

RENTS FOR HOUSING ACCOMMODATION AT WOOLWICH.

Chairman.

2640. (To Sir *Henry Gibson.*) With reference to paragraph 5, Sir Henry, have you got any answer to your inquiry?—Yes, I have received a reply now, giving the particulars asked for. I have not been able to get the papers yet, but they have given me all the information I asked for.

Sir *Charles Henry.*

2641. As to the rental value of the flats and hostels, £119,000, can you tell the Committee what was the capital expenditure in order to produce that £119,000?—(Mr. *Dannreuther.*) I do not recollect the figures. I have had them, and they have been reported to the Treasury. It is all in the Appendix to last year's report of the Public Accounts Committee, I think. (Sir *Henry Gibson.*) The explanation given to me is that the capital expenditure in respect of which the rental value is £119,000 is just under £1,000,000—£975,000.

2642. That is 12 per cent. they are getting, so that they are profiteers of the worst character?—That is the total expenditure up to the 31st March, 1917. (Mr. *Dannreuther.*) The rents would be fixed fairly high to amortise the value. They are temporary buildings.

Mr. *Leif Jones.*

2643. The statement is that the rental value is £119,000. What does that mean?—(Sir *Henry Gibson.*) That is the totals which these dwellings ought to bring in for a full year at the fixed rates.

2644. That is the assessable rate. What has been the rent received for the hostels?—The rental received up to the 31st March in respect of which the capital value is one million is £57,100.

2645. £57,100 is the rent received, as against the rental value or assessment of £119,000?—Yes. That means they did not get the full rents in all cases for the full year. It was for varying periods.

2646. They have never been fully occupied?—It does not really cover the period of a full year in many cases. They were brought into occupation during the course of the year.

2647. Do you pay your rates on the value of these flats and hostels?—(Mr. *Dannreuther.*) There may be a Government contribution in lieu of rates.

2648. You do not know what it amounts to?—No, but I could find out. It will be taken up in our accounts.

2649. I wanted to arrive, if I could, at the net rent received by the Government for flats and hostels for the year ending 31st March, 1917, and perhaps you could get me that figure?—I will.

2650. And also the figure for the year ending 31st March, 1919, if you yet know it?—Yes.

Mr. *Higham.*

2651. And the capital invested each year?—Yes.

Sir *Charles Henry.*] Then you require the amount of the hostels and flats occupied?

Mr. *Leif Jones.*] We have had that in the report of the Comptroller and Auditor-General. The rental assessment is really nothing. That is what the Government ought to receive if they were all let.

MINISTRY OF MUNITIONS—(ORDNANCE FACTORIES) APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry.*

2652. Turning to the account itself and dealing with sub-head H., "Appropriations in Aid," on page 2, when the Ordnance Factory at Woolwich or any Government national factory makes munitions or supplies for the Allies, are they charged to the Ministry of Munitions, who then charge the Allies, or are the Allies charged direct by the Ordnance Factory?—They are charged to the Ministry of Munitions and we fix our prices to the Allies, which may not be based only on those prices supplied by the Ordnance Factories, but on the price generally which we have had to pay elsewhere.

2653. The Ordnance Factories are not in direct communication with the Allies?—No, they are not financed by the Allies at all, but by us, the War Office and the Admiralty.

2654. Therefore any material which the Ordnance Factories supply is debited or charged to the Allies through the Ministry of Munitions?—That is so, and not necessarily at the same price. That would depend on fixing an average price for our supplies from other sources.

Mr. *Higham.*

2655. With regard to "New works and additions amounting to less than £2,000 each," stated on page 3, what does it mean by giving Woolwich £139,000 odd? Does that mean that there are 100 separate new works or new additions?—They have always had lump sums allotted to them even in peace time, which are, of course, increased in war time, for small services they are allowed to do on their own responsibility.

2656. I was wondering whether there were any such works going on now, because I am told that Woolwich themselves are building a works at Southall. Where would that come in? Supposing that were in this year. Under which category would it come?—It would depend on its cost. If it was under £2,000 it would appear under Part II. If it is a war service, it would appear in the war services under Part I. in an item corresponding with the £638,000 odd, if it is being built for the Ordnance Factories themselves; and if it is being built for another department, it would appear as an item shown below Part III., that is the services performed by the Ordnance Factories, for other Departments of State. (Sir *Henry Gibson.*) During the war detailed estimates are not given. In peace times the services over £2,000 would be detailed and set forth in the Estimates. That is not the practice in war time, when no details of any services, however large, are given at all.

2657. Are they in the habit of building factories without contracts or without estimates?—Mr. *Dannreuther.*) No.

2658. I understand this Southall place is being built without contracts—I will not say without an estimate?—Is it being built by direct labour by the Building Works Department? Woolwich have a big Building Works Department of their own.

2659. I understand that this is a factory for production of wireless apparatus. I have been there and seen the place being built, and I watched the men work, or rather play when they should have worked?—I am personally unaware of the particulars.

2660. There are some hundreds of men employed now in the building?—(Sir *Henry Gibson.*) We can find out any particulars which are wanted. (Mr. *Dannreuther.*) Quite so. I will take a note of that.

ANNUAL ACCOUNTS OF THE ORDNANCE FACTORIES FOR THE YEAR 1916-17.

Chairman.

2661. (To Mr. *Dannreuther.*) The report of the Comptroller and Auditor-General is on page 10 of the White Paper. Have you anything to say as to paragraph 1, "Extent of Audit"?—I have nothing to say, except that my own Auditor's experience confirms that of the Comptroller and Auditor-General.

Chairman—continued.

2662. Would the factory we have been talking about at Southall come under the head of Temporary Buildings for the Ordnance Factories referred to in paragraph 2?—I do not know—I do not know anything about that building.

2663. What about this loss on the sale of aluminium which

ANNUAL ACCOUNTS OF THE ORDNANCE FACTORIES FOR THE YEAR 1916-17.

Chairman—continued.

which is referred to in paragraph 3?—(Sir *Henry Gibson.*) I have now had a reply from the Ministry saying that they regret that the issue to the Indian Government was incorrectly priced, and that steps are now being taken to recover £13,000. (Mr. *Dannreuther.*) The mistake lay with the Ministry rather than with the Ordnance Factories. The Ordnance Factories issue to the Ministry was quite correctly invoiced at book value, plus 5 per cent. in accordance with established practice. It was our business to fix the price for the sale to the Indian Government, and, unfortunately, the invoice was made out at the price we had taken it from the Ordnance Factories at, whereas it ought to have been at the current flat rate fixed by the Ministry for sales generally.

2664. That has been corrected?—A claim has been made on India.

2665. And the claim is not disputed?—(Sir *Gilbert Garnsey.*) They have not had much opportunity of disputing it yet, as the letter was only sent off within the last ten days.

2666. Is there anything further on paragraph 3, or on paragraph 4, "Stocktaking"?—(Mr. *Dannreuther.*) The investigations are still incomplete, partly in view of the difficulties referred to with regard to store accounting in the next paragraph, but reports will be furnished to the Exchequer and Audit Department as soon as they are complete.

2667. With regard to paragraph 5, is there any improvement in connection with this unsatisfactory store accounting?—My information does not exactly tally with that of the Comptroller and Auditor-General. I understand the stores were taken on ledger charge through the Ministry advice notes, and that the ledgers do reflect properly the stocks received and issued, apart from any arrears there may be in posting; but though the records are there as to quantity, the prices are missing, and that has been the cause of the difficulty. The delay in sending priced invoices interfered with the Ordnance Factories costing records.

Sir *Charles Henry.*

2668. At Woolwich, at the Ordnance Factory, have they got the single or double entry system of bookkeeping?—Double all through; it has always been so at the Ordnance Factories ever since the accounts were instituted there, in the eighties of the last century.

Mr. *Leif Jones.*

2669. The Comptroller and Auditor-General says: "The store ledgers do not show the stock in hand at any given date." Do you accept that, Mr. Dannreuther? I understand you to say that they do show the amount of the stock?—The Ordnance Factories, I am told, have had to make use of supplementary ledgers to deal with receipts about which there is doubt or trouble, and they do not post these into proper store ledgers until the situation in regard to any particular consignment has been cleared up. Consequently, both records have to be taken into account for stock purposes or comparison with storeholders' charge.

2670. Did you not see these supplementary ledgers, Sir Henry?—There has been delay in posting the store ledgers; they are short of experienced staff, and I know there has been considerable delay.

2671. You mean that there was considerable delay in the early days up to the 31st March, 1917?—I am told that there are arrears at present, and they have great difficulty with the constant combing out in keeping their records up to date.

2672. (To Sir *Henry Gibson.*) Do you accept that, Sir Henry?—My information as to the subsidiary records is that they are very unsatisfactory; they are only kept in pencil, and the entries are rubbed out; we do not really regard them as at all satisfactory. (Mr. *Dannreuther.*) My Auditor reports that they must be taken in conjunction with the other records if one wants to get at the position, and they have done their best to cope with the very difficult situation down

ANNUAL ACCOUNTS OF THE ORDNANCE FACTORIES FOR THE YEAR 1916-17.

Mr. *Leif Jones*—continued.

there. (Sir *Henry Gibson.*) I do not regard this way of keeping the accounts as satisfactory.

2673. A subsidiary account kept in pencil which may be altered from day to day as suits the convenience of a particular clerk is not satisfactory as a record?—(Mr. *Dannreuther.*) The storeholders' records are perfect as regards quantity, and I do not think any complaint is made with regard to the records of quantities. (Sir *Gilbert Garnsey.*) I am told that the store records are in very good order as to quantities.

2674. How do you reconcile that with the statement of the Comptroller and Auditor-General—"The store ledgers do not show the stock in hand at any given date." Do you dispute that statement?—I am giving you the information which I have just received from the representative in charge of the audit there, who says that the store records are in very good order.

2675. Are or were?—They are in very good order.

2676. They may be now, but we are dealing with the period ending 31st March, 1917; does your informant dispute the Comptroller's statement in the paragraph which I have read?—He says he cannot speak for the records as they stood at that date, but he is speaking from his knowledge to-day in saying that they are in very good order.

2677. Sir Henry, you probably know the records to-day?—(Sir *Henry Gibson.*) I gather from my people that when it is stated that the store records are not in good order they refer to the main store records, because there are these subsidiary records which are not satisfactory still being kept up.

2678. It is precisely the subsidiary system that I want to be satisfied about. Is the subsidiary system such as to make us safe?—(Mr. *Dannreuther.*) I understand that the records are right as regards the quantities, but there are difficulties with regard to pricing; they have had difficulty in getting the prices invoiced from the Ministry.

2679. And your information is that if you take the two ledgers together——?—I have got a report from the Chief Superintendent here on that paragraph, if you would care to see it. (Sir *Gilbert Garnsey.*) Probably I can explain the difficulty. The store ledgers in the actual stores themselves are, I am told, in very good order, but the clerks there send forward information to the head office at Woolwich, so that they may have Control Accounts at the head office, and these Control Accounts are admittedly not in good order. These are the accounts, I think, to which Sir Henry is referring, but the real records are the records in the stores themselves.

Mr. *Higham.*

2680. Will the records in the stores themselves be of quantities and not values?—That is so.

2681. Whereas, in the other case, the subsidiary records even of the quantities are kept in pencil and may be altered from day to day, while of course the ledgers ought to contain both the quantities and values; that is your criticism as I understand, Sir Henry?—(Sir *Henry Gibson.*) Yes; the passage upon which the paragraph was based was: "The Woolwich store ledgers deal concurrently both with quantities and values, and until priced invoices are received from the Ministry of Munitions for materials supplied to the factories the receipt entries in stores ledgers are hung up."

2682. There is no dispute as to the correctness of that statement?—(Sir *Gilbert Garnsey.*) That is so.

Mr. *Leif Jones.*

2683. The greatest safety lies in having the quantities entered; they enter the quantities before they enter the prices?—Yes. (Sir *Henry Gibson.*) The delayed transactions are kept in subsidiary ledgers; they are not put into the main ledgers as soon as they should be.

2684. Is that satisfactory, Sir Gilbert?—(Sir *Gilbert Garnsey.*) My information is that the quantity is duly entered in the store records, but admittedly the money values to which Sir Henry refers are not completely

ANNUAL ACCOUNTS OF THE ORDNANCE FACTORIES FOR THE YEAR 1916-17.

Mr. *Leif Jones*—continued.

up to date; so while we have correct figures in quantities we have not correct figures in money values. That is not satisfactory, of course. We are endeavouring to get these up to date, and I think, as Mr. Dannreuther says, it is largely due to the lack of staff at Woolwich.

2685. Are you gaining on the arrears or losing ground?—My information is that we are making considerable progress.

2686. Not having these records up to date, you do not possess the necessary means of accounting control over a stock valued at £4,000,000; do you accept that?—I would not accept that without a qualification. I would say that we have the accounts in the sense that we are able to keep an accurate record of all the quantities, but that the actual bookkeeping as to money values, showing on the debit side all the money values and stores received, and on the credit side all the money values and the stores sent out, is not up to date. That does not mean that we are going to lose money.

2687. Does it not? Is not the whole object of keeping this account, or the main object, not merely to know after elaborate calculations what has been spent, but to keep your eye on it as it is going on? At least half the value of these accounts is lost if they are not up to date?—Undoubtedly it would be much better if they were up to date; that is admitted.

2688. I put it to you in this way: It would be almost better to say, "The accounts are badly kept, and have got so much into arrear that we will abandon any attempt to keep them and start afresh from to-day"?—It depends on whether you mean by that that we should have a loss. What I want the Committee to understand is that there is no question here of a loss to the State in any shape or form, but our check upon the storekeepers is not so up to date as it should be—I admit that.

2689. What we are afraid of is that you are perpetually in arrears, and that it would be much better from the public point of view if you were to say, "We have been in arrears; we cannot overtake them, but we will keep the current accounts up to date and have done with the arrears"?—That, I think, is a matter we ought to consider: thank you for the suggestion.

2690. I put it to you that it would be really better to wipe off any loss which may or may not have occurred than be always in arrear?—(Mr. *Dannreuther.*) That is what we have done at our new factories. (Sir *Gilbert Garnsey.*) You will find it is exactly what we have started in connection with the national factories, which you will come to presently.

Chairman.

2691. Turning to page 5 of the White Paper, under the heading of Statement of Indirect Expenditure there is one item, "Pay of employees serving in Army and Navy, £42,942" odd. Is that Army pay you found for them, or extra pay beyond the Army pay?—(Mr. *Dannreuther.*) That is balance of civil pay, I think. (Sir *Henry Gibson.*) That follows the usual arrangement in the Civil Service.

2692. It is the balance of civil pay?—(Mr. *Dannreuther.*) Yes. (Sir *Henry Gibson.*) They are allowed to draw so much of their civil pay as will maintain their emoluments at their former rate.

Mr. *Leif Jones.*

2693. I gather that the most moderate expenditure in the list is the expenditure on account of the Exchequer and Audit Department. That shows that Sir Henry is not unduly troublesome?—(Mr. *Dannreuther.*) Perhaps he cannot get the staff and therefore cannot spend more; this is the only case where he actually debits us.

2694. Is this your debit against them, Sir Henry?—(Sir *Henry Gibson.*) It is a debit there, but we do not carry it to the credit of our Vote.

Mr. *Jowett.*

2695. May I ask what is the exact meaning of the balance of civil pay?—(Mr. *Dannreuther.*) Supposing a man was getting £5 a week in the Arsenal and enlisted at the beginning of the war, he gets the difference made up between his normal day rating, I think, and 7s. pay plus any separation allowance he draws. If the separation allowance plus 7s. comes to less than his civil pay, the difference is made up to him. (Sir *Henry Gibson.*) I should like to make it plain to the Committee that the item of £262 in that list does not represent the cost of my staff employed there; it is in respect of messengers, etc., who are down there.

Mr. *Leif Jones.*

2696. It is expense put on the Department because of your visits?—It is the cost of messengers, etc., down there attached to my staff.

Sir *Charles Henry.*

2697. On page 7 there is a deficit of £2,328,000 charged against the Vote of Credit?—(Mr. *Dannreuther.*) That is capital expenditure.

2698. Is it capital expenditure, or is it working loss?—That is capital expenditure, including extra stocks. There is no working loss at the Ordnance factories; we recover from our customers the actual costs. Instead of money being voted for capital expenditure, we have taken a token vote in each case of £100, and this deficit shows what would have been otherwise voted.

2699. In charging your customers for the supplies you manufacture for them you do not take anything into account for interest on your capital expenditure, do you?—Not for interest. (Sir *Henry Gibson.*) You charge depreciation. (Mr. *Dannreuther.*) There is depreciation on the buildings and plant; 3 per cent. on buildings and 30 per cent. during the war on plant.

2700. Is that apportioned pro rata in arriving at your costs?—Yes. (Sir *Henry Gibson.*) That £2,000,000 odd is extra capital expenditure over the amount realised by depreciation; the details are shown on page 2 of the account we have just done. (Mr. *Dannreuther.*) On page 5 the depreciation of machinery is shown in the indirect expenditure statement.

Mr. *Leif Jones.*

2701. At the bottom of page 7, Mr. Dannreuther, under sub-head L, "Housing Schemes for Munition Workers," there is an expenditure of £546,793?—That is right; it was decided not to saddle the Ordnance factories with those, but to charge them to the Munitions Vote like all the other housing schemes during the war.

2702. This is land and houses—land bought and houses erected?—I do not know whether the land was taken under the Defence of the Realm Act or actually purchased, but it would include the whole of the expenditure. The Ordnance factories carried out the expenditure on behalf of the Ministry of Munitions. We have not put those housing schemes on to the capital account of the Ordnance factories.

2703. This does cover the whole of the expenditure?—This was the work done during that period by the ordnance factories on our behalf putting up the housing schemes required to provide labour for the ordnance factories. (Sir *Henry Gibson.*) Not the national factories, only the ordnance factories. (Mr. *Dannreuther.*) This is work done by the Woolwich Building Department on behalf of the Ministry.

Mr. *Higham.*

2704. Why, on page 9, is the whole of the amount of production for the Navy limited to one sum, while on page 8 for the Army there are about thirty sums?—Possibly Sir Henry could answer that better than I can. (Sir *Henry Gibson.*) The Navy are peculiarly sensitive about giving any information during the war; they have declined to give any details in their accounts of the amounts received which would show what the money was spent on.

2705. That is a very convenient reason to give for shirking work?—They have argued it out before this Committee, and the Committee have not overruled them.

ANNUAL ACCOUNTS OF THE NATIONAL FACTORIES AND OF THE ROYAL AIRCRAFT FACTORY FOR 1916-17.

Chairman.

2706. (To Sir *Henry Gibson.*) Your report is on page 6 of this White Paper, Sir Henry. Have you anything further to say about paragraph 1?—I say that the accounts and reports were not presented in time to be dealt with in connection with the Appropriation Account, some having been received only very recently. The point of that paragraph is that they were not enabled to be included in the same report as for the Appropriation Account, and therefore for this year they are in a separate paper, and I think it would be better in future also to deal with them separately. They are bound to be rendered at a later date, just like the Ordnance Factories Account.

2707. In paragraph 2 it is stated "As regards Group 5, 'Trench Warfare Factories,' the condition of the records on which these accounts are based was not such as to warrant the Director of Factory Accounting in certifying the accounts which are supported only by a certificate in very general terms by a sectional officer"?—(Mr. *Dannreuther.*) With regard to trench warfare factories, at that time they were not direct manufacturers, they were only assemblers or fillers; the goods were issued on free issue to the filling factories, and the accounts were on a cash basis only. Since then they have begun to a certain extent to manufacture at these places, and their accounts have been brought into line with all our other factories.

2708. And they are better now?—I do not know that they were wrong then, but there was not the same necessity at the time when they were merely assembling and filling for keeping such elaborate cost accounts. Now they are being put on exactly the same lines as all the other factories. (Sir *Gilbert Garnsey.*) The audit has been taken over by the Controller of Factory Audit and Costs from the 1st April of this year.

2709. Are any of these factories the sort of place where shell would be sent to have a certain bit of work done upon it, a couple of bands put on or so on?—(Mr. *Dannreuther.*) No, those were for filling bombs, grenades, and that sort of thing connected with trench warfare.

2710 It did not apply to shells?—No.

2711. Is there anything in paragraph 4 which refers to the breakdown of headquarter records?—That is the case we have just referred to where we have taken Mr. Leif Jones's advice. We found that the local factory records were in a much better state than our attempted control ledgers at headquarters.

Mr. *Higham.*

2712. From the second sentence of this paragraph I see that they accept Mr. Leif Jones's suggestion; they got into such a mess that it was the only thing to do?—Our bills were paid at headquarters, and we only paid on receipt of Advice Note acknowledging receipt by the factory. We always had that before we paid any bills at headquarters. The issues from the factories were properly recorded at the factories, and consequently when they went to contractors or allies, there is no question here of a possible loss of cash or interest as in the cases we were dealing with on the Main Appropriation Account. (Sir *Gilbert Garnsey.*) The question really was as to whether we would keep a large staff engaged on invoicing to ourselves, and we came to the conclusion that it was better to discontinue that work altogether, and to start properly as from the 1st April this year.

Chairman.

2713. The Treasury have quite approved of that, Mr. Barstow?—(Mr. *Barstow.*) The Treasury have agreed to that.

Sir *Charles Henry.*

2714. The third sentence of the paragraph deals with the argument that the Factories Costs Accounts have helped to determine what the contractor ought to charge for their supplies. Do you think that has been helpful—that the factories should be able to determine what the contractors should charge?—(Sir *Gilbert Garnsey.*) It has undoubtedly enabled negotiation with contractors to be conducted on a very different basis than would have been the case if we had not had these costs.

2715. On the whole can you manufacture at these national factories cheaper or on more advantageous terms than you can get supplies from contractors at?—(Mr. *Dannreuther.*) I should say on the whole—yes, and we have certainly had other advantages.

2716. Taking into consideration the capital expenditure, depreciation and interest on capital?—Yes, that is allowed for; there is a figure put in for depreciation. One of the very great advantages has been in respect of labour; we have been able to carry out dilution, and to use women much more readily at the factories we have started than where it has been the practice to employ only men for generations past.

2717. Then you think the country have got better value from the national factories than from contractors?—Very decidedly in the case of the explosive factories where we were dependent upon America. There is no doubt that our big explosives factories have already almost paid for themselves absolutely—I am told it is within £3,000,000—as compared with the prices we should have had to pay in America.

2718. You have charged the American prices or prices you would have been charged by contractors, and in charging those prices your factories have been highly remunerative?—They have been written off pretty nearly. (Sir *Gilbert Garnsey.*) I am told that the costs of the national factories are undoubtedly lower than the contractors' costs.

Chairman.

2719. Have you anything to say with regard to paragraph 5?—I do not quite follow the wording there of Sir Henry's report: "Reconciliation of the Cost Accounts with the cash system at headquarters." Of course, there can be no reconciliation of the Cost Accounts with the cash payments. Probably Sir Henry means the reconciliation of the current accounts of the factories with the Ministry of Munitions. (Sir *Henry Gibson.*) The current account—that is so. (Sir *Gilbert Garnsey.*) If that is the question, I agree, for the reason that there have been large delays in invoicing, and as has just been explained, we have discontinued dealing with the old work, and started afresh from the 1st of April this year.

2720. Invoicing on the part of whom?—Invoicing by the Ministry to the national factories.

2721. If the national factories have not had all the supplies invoiced to them——?—They have everything at standard prices; there is a standard price for every article.

2722. Do they charge themselves at standard prices?—Yes.

2723. I was thinking that if they had the supplies invoiced to them by themselves the fact that they showed this wonderful result was not surprising?—That is perfectly true; as a matter of fact, they charged themselves at once, and therefore no point arises.

Mr. *Leif Jones.*

2724. How will you be affected, Sir Henry, when you come to certify the accounts by this decision of the department?—(Sir *Henry Gibson.*) Fortunately, I am absolved from certifying the accuracy of manufacturing accounts; I report upon them, but do not certify them.

2725. Do you approve of the action which has been taken?—I think it was the only course to be adopted.

Chairman.

2726. Paragraph 6, dealing with the local records of materials, is rather a strange paragraph?—(Sir *Gilbert Garnsey.*) I am told that this is not really so serious as it appears. In the first case I would like to say that there is no question of loss of money here. All it amounts

ANNUAL ACCOUNTS OF THE NATIONAL FACTORIES AND OF THE ROYAL AIRCRAFT FACTORY FOR 1916-17.

Chairman—continued.

amounts to is that if invoices had been sent forward, the production figure on the balance-sheet would have been altered as well as the liability to the Ministry of Munitions. That is all that would have happened.

2727. How did they come to omit even one item of £3,000,000, or, rather, not to find out that it was omitted?—I think we may take it that the accountants did not know the extent of it. They knew that invoices had not been received.

2728. In leaving a figure or set of figures out altogether?—Invoices had not been sent forward.

Sir *Charles Henry.*

2729. They really had £3,000,000 more stock than what must have appeared?—(Sir *Henry Gibson.*) I brought this to light as an instance of the fact that the only audit or the principal audit applied to these accounts is the audit of outside chartered accountants, and therefore it is rather unsatisfactory to find that they should have omitted to detect an error of this magnitude. (Mr. *Dannreuther.*) It was picked up by our own auditors. (Sir *Henry Gibson.*) But you paid these chartered accountants to carry out this audit.

2730. At an ordinary shell factory do they keep any store accounts at all?—(Mr. *Dannreuther.*) They do not always keep satisfactory ones at these shell factories, and it is quite an ordinary practice in commercial life to keep no store accounts.

2731. They have no store accounts?—In an ordinary commercial house?

2732. In this instance they could not have done it, or they would have found it out?—(Sir *Gilbert Garnsey.*) I think you may take it that they had store accounts here, but the items in the store books were not up to date.

Mr. *Higham.*

2733. They would be marked in quantity, but not in money?—That is right. (Sir *Henry Gibson.*) Are you satisfied with the audit of these outside chartered accountants as a rule? (Sir *Gilbert Garnsey.*) On the whole, yes. (Mr. *Dannreuther.*) They are now working under the supervision of our Controller of Audit, and he is giving them general directions.

Chairman.

2734. With reference to paragraph 7, Mr. Dannreuther, is that costing system gradually getting better?—I think so. (Sir *Gilbert Garnsey.*) The trouble there, too, has been that we have not had proper accountants—we have not got sufficiently qualified men to prepare the figures.

Sir *Charles Henry.*

2735. Do you give the Admiralty the benefit of your results as regards costing at your national factories?—(Mr. *Dannreuther.*) Yes, they are regularly communicated.

2736. Do they ever ask for them?—There is a common Costs Registry now, in which all costs are circulated between the joint committee of contract officers of the Admiralty, War Office and the Ministry.

Chairman.

2737. As to paragraph 8, Mr. Dannreuther, it says: "The same group is responsible for the whole of the item for Hostels and Dwelling Houses, expenditure in connection with such services for factories in the other groups being presumably either taken up under Buildings or excluded from the accounts altogether." If it is either one or the other, which is it? Are they taken up under buildings, or are they excluded from the accounts altogether?—They are excluded from the accounts everywhere, I think, except in the case of Gretna, where the township has been part of the whole factory, but separate accounts are now being prepared for Gretna, separating the factory proper from the township, the housing and the hostels, and it is that analysis, which has taken a long time, which has caused the delay referred to earlier in the paragraph. A complete analysis has been prepared of the whole of the expenditure at Gretna.

2738. And at Queensferry?—Yes. Those are the two factories referred to.

2739. The paragraph also states "there has been considerable inconsistency in classifying charges between construction (capital) and production"?—That is a vexed question generally in commercial life, and the practice varies considerably. (Sir *Gilbert Garnsey.*) You will find the same inconsistency in commercial practice as there is here; you will probably get two firms engaged in the same trade having an entirely different practice, and the directors of each would probably say that the other was wrong.

2740. That is so, but which practice have you adopted?—We are endeavouring to put them all on one practice now; it is going to take some little time to convince everybody concerned, but we are endeavouring to bring them all into one common practice.

2741. What factory was it that was wrecked?—(Mr. *Dannreuther.*) Morecambe.

Mr. *McKinnon Wood.*

2742. With regard to the Government rolling mill referred to in paragraph 10, is that Woolston?—That is Woolston, near Southampton.

2743. Was there trouble about compensation for land there?—I think there was.

Chairman.

2744. What about those items that were not incorporated in the original provision? Apparently you did not even provide land?—The land was in the original £680,000, which was the original sanction, but there were changes made in what the factory was being designed for. It was altered to go in for making fuse stampings and Q.F. discs, and so on.

2745. But apparently there were a great many important items not included in the £630,000? That, I am afraid, is true, like the warehouses and canteens, a jetty, a gantry, and sidings. There were a great many things for which provision was not made.

Mr. *Mackinnon Wood.*

2746. Were not very sanguine expectations as to the profitableness of this undertaking submitted to the Treasury? It was going to pay for itself in twelve months, or something like that?—Yes.

Mr. *Leif Jones.*

2747. I put it to you, that the result of your having the power to investigate the accounts and being in a position to start a Government rolling mill appears to be the reduction of prices which immediately followed on these two events?—I quite believe that is the fact.

Sir *Charles Henry.*

2748. Was it one of the officials of the Ministry that was responsible for the original estimate of £755,000, which was exceeded to the extent of growing to £1,200,000? Who was responsible for the original estimate?—The two figures do not quite cover the same items. As I explained before, there were a great many additions made. I think sanction was given financially inside the Department up to over £1,000,000. There were various items added on as the scheme developed.

2749. What were your relations with the Treasury over this matter? Did you have to go to the Treasury to get this additional sanction?—The Department did go to the Treasury because of the purchase of the land and because it was not covered by the general scheme of

ANNUAL ACCOUNTS OF THE NATIONAL FACTORIES AND OF THE ROYAL AIRCRAFT FACTORY FOR 1916-17.

Sir *Charles Henry—continued.*

of projectile factories, filling factories, and other factories, as to which we had a general sanction from the Treasury, but I am afraid it was not realised by the people who gave the subsequent sanction that once having been to the Treasury they ought not to have given financial sanction for extras without going to the Treasury. It was probably due to the wide powers that the Ministry enjoyed at that time that the financial adviser who then assisted the Financial Secretary and dealt with some of the extras that came before him did not appreciate that fact.

2750. You got Treasury sanction for the expenditure of £630,000 and you spent £1,200,000 without any Treasury sanction?—We have had Treasury sanction subsequently.

2751. After the money was spent?—Yes. Additions were approved in the office bringing the total up to about £1,000,000, and with the extra cost of wages and other things it will be nearer £1,200,000 than £1,000,000 before the account is closed.

2752. May I ask what are the relations between the Ministry and the Treasury now?—We cannot go beyond £50,000 without the Treasury's specific sanction. If there is any extra we have to report to the Treasury and get their sanction.

2753. Is that strictly adhered to, Mr. Barstow, at the present time?—(Mr. *Barstow.*) I hope so. I cannot say, of course. (Mr. *Dannreuther.*) It is my duty to see that it is, and I think it is. (Sir *Henry Gibson.*) It is my further duty to see that if Mr. Dannreuther does not get Treasury authority the matter shall be brought to the notice of Parliament. (Mr. *Dannreuther.*) I cannot get discharged otherwise. It is one of my functions.

Chairman.

2754. The total balance sheet is on page 2?—I am afraid it does not convey very much information.

2755. On the asset side there is "Expenditure not yet analysed and sundries," over twelve millions?—(Sir *Gilbert Garnsey.*) That has since been analysed, and in the next balance-sheet, up to March, 1918, will be spread over the various items. The reason it could not be analysed at that date is that the contractors who had performed the work could not give us the analyses themselves, and we had to put the figure in in one sum. We have had all the information since then.

2756. Could you now reconstruct the balance sheet?—Not at 31st March, 1917, but at 31st March, 1918. Such an item as that will not recur.

2757. For future years you will have the information given to you?—Yes. (Mr. *Dannreuther.*) That refers to the two factories we were discussing a moment ago.

(*Mr. Dannreuther and Sir Gilbert Garnsey withdrew.*)

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. J. A. Flynn, C.B., called in; and Examined.

Chairman.

2758. (To Sir *Henry Gibson.*) This account, Sir Henry is not for more than six weeks?—That is so.

2759. And, therefore, your observations are with regard to current times, and not anything to do with the particular period under review?—Well, I have not dealt with any special points as to individual cases arising outside the period of the account, but I have made some general remarks which appertain to a later period, and also having regard to the recent warrants as to changes which have come into operation since that period, although I have not raised any specific individual cases relating to 1917-18 in my report.

2760. Those remarks come later on in the report?—Yes.

2761. (To Mr. *Flynn.*) With regard to paragraph 3, Mr. Flynn, you have now a normal departmental examination?—Since the beginning of this year.

Mr. *Leif Jones.*

2762. That means to the 31st March, 1918?—Since the 1st January. I meant the calendar year. (Sir *Henry Gibson.*) I think Mr. Flynn will agree that it was a great help to his Department, that I had a certain number of examiners I could lend him, and they were able to check and revise the probably inaccurate awards before the pensions were issued, and therefore preventing the money having to be recovered at a later date. (Mr. *Flynn.*) I think the arrangement was a great advantage to the Ministry. The War Office did not audit the Chelsea awards, and therefore had no staff to hand over, and I had great difficulty in getting staff of any experience; in fact, I do not know where I could have obtained it from to train the new-comers without this assistance from the Comptroller and Auditor-General. (Sir *Henry Gibson.*) It is an important point that Mr. Flynn draws attention to. This is the first time a complete departmental audit of pensions has taken place. Mr. Flynn as the accounting officer audits all awards. In the War Office and Admiralty there is no independent check within the Department, and therefore my Department has hitherto carried out a complete check of every award. Now that there is an internal check within the Department I only carry out a test audit of awards of pensions just as I do in other matters.

Mr. *Leif Jones*—continued.

2763. As to paragraph 4, Mr. Flynn, which deals with the establishment, powers and duties of the Ministry of Pensions, do all the Royal Warrants and all the Orders in Council date back as from the 1st April, 1917, on whatever date they are given?—(Mr. *Flynn.*) The original warrants dated back to that date, but of course the later warrants revising them have taken their own dates.

Mr. *Leif Jones.*

2764. Do all pensions arising out of the war come under the Ministry of Pensions now, and therefore under your observation?—I think I may say yes as regards those, because I take it you would regard only a disabled man's pension as arising out of the war. All disablement pensions come under the Ministry of Pensions.

Sir *Charles Henry.*

2765. Do pre-war disablement pensions come under the Ministry of Pensions?—They are still paid for us by the War Office, but we repay.

2766. Therefore they are included in the amount represented as payment for pensions. Say that the disablement occurred in the Boer War, are they paid now out of the money you get from Parliament or by the War Office?—Out of the money voted for the Ministry of Pensions. We repay the War Office.

Mr. *Higham.*

2767. Does that mean that it involves these accounts being kept twice over; the War Office do the bookkeeping and hand the money over to you, so they must send a record of every separate case to you?—We merely examine the accounts instead of the War Office examining them. There is no duplication.

ALLOCATION OF AWARDS BY MINISTRY, ADMIRALTY AND WAR OFFICE.

Chairman.

2768. (To Mr. *Barstow.*) With regard to paragraph 5, Mr. Barstow, did the Treasury have any difficulty in arriving

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

arriving at that decision that the War Office and the Admiralty should deal with their own pensions, because it is rather taking it out of the hands of the Ministry of Pensions, is it not?—The division is that the War Office and Admiralty deal with service pensions and the Ministry of Pensions deals with pensions arising out of the war.

2769. Disability pensions?—Those special cases mentioned in this paragraph are cases in which the disability pension would not be larger than the service pension, and it will be observed that on reference to the Treasury it was decided that that class of pension should be dealt with by the War Office and the Admiralty respectively. If the officer were entitled to a higher disablement pension than the service pension to which he was independently entitled, that case would be dealt with by the Ministry of Pensions.

2770. But where the service pension was the bigger he was given the service pension without the Ministry of Pensions coming in?—That is the statutory line of demarcation between the functions of the Ministry of Pensions and the other Departments.

2771. With regard to paragraph 6, which deals with the issue of pensions by the different Departments concerned, the correction there meets with your approval, Sir Henry?—(Sir *Henry Gibson.*) Certainly. All payments are made weekly now. The Pension Office makes all payments, whether due to service or disability, and recovers those due to service from the War Office and the Admiralty. The payments are thus being made weekly from one central source, which is a great saving.

2772. As to paragraph 7. That expression "Those who die on a Wednesday" is rather a curious one; I think it means "in the case of dependents where death occurs on a Wednesday," does it not?—It is all right really; it is rather a small point, although it gave rise to a great deal of discussion between the Treasury and the Ministry of Pensions. The point is, these advances are now made on the Wednesday morning. The pensions have previously been issued up to Wednesday evening, and then they started another system from the Wednesday morning, and there was thus an overlap of one day.

INCREASED BENEFITS TO OFFICERS AND MEN.

Chairman.

2773. (To Mr. *Flynn.*) I see it is stated in paragraph 8: "There appears to be a disposition on the part of the Ministry to take a generous view of the responsibility of the Department towards the soldier and his dependents." Can you take a generous view of a Royal Warrant? Are you not bound by the provisions of the Warrant?—I have held so as Accounting Officer, but the interpretations which have been made of the Royal Warrant and the general tendency to generosity have been such, I think ought to say, as to cause me grave concern as Accounting Officer. (Sir *Henry Gibson.*) I wrote this last February, and I am bound to say that in many cases which have come before me since not only has a generous view been taken, but I think a view which must be held to be an unnatural straining and extension of the Royal Warrants beyond what is reasonable and proper. In certain cases I have had to make representations to the Treasury on the subject. This question of the interpretation of the Warrant is an old one; it has been before the Public Accounts Committee, and my duty in connection with it has been laid down repeatedly. There are two or three cases that I have had specifically to represent to the Treasury, where I consider the Warrant has been interpreted in a strained and unnatural way, and therefore that these pension charges are not admissible. I have had to refer, as I say, two cases to the Treasury, and one was some time ago. They have had some correspondence with the Ministry of Pensions over it, and I have just received to-day a copy of the letter from the Treasury in reply to the Ministry of Pensions, in which, in connection with the particular case referred to, they say: "Relative to the observations of the Comptroller and Auditor-General on the award of pension and children's allowances to the widow of Lieutenant So-and-So, my Lords regret that they are unable to concur in Mr. Hodge's opinion that there are in this case special circumstances which make it reasonable to regard the death of this Lieutenant as attributable to Army service within the meaning of Article 11 (2) (b) of the Royal Warrant of the 1st August." That means, of course, that they upheld my view, and, unless some further action is taken, I shall have to report the charge for disallowance as not being properly incurred. I am bound to say, as Comptroller and Auditor-General, seeing the many papers which come across to my Department from time to time for audit, that I have been struck more and more in the last few weeks with the number of cases where the Accounting Officer has had to make representations that expenditure is being incurred practically irregularly, and in defiance, or, at any rate, in very strained interpretation of the regulations governing the award of pensions.

2774. I think the Committee will rather feel that, although those figures do not fall within the year under review, the question is such an important one at the present moment, and as we shall not be able to deal with it another year if we do not deal with it now, we are quite justified in taking it up now, and therefore we should like you to give us one or two concrete cases of this sort on which we can ask for some explanation. There is this Lieutenant somebody; can you tell us what that case was, without the names, of course?—I was wondering whether the Committee, if they are going into this, would care for the Accounting Officer and myself to put in a number of cases which they could examine and take evidence on later? I could give this case and another case that I laid before the Treasury about a fortnight ago, where I considered the terms of the warrant had been departed from. I have not got a complete set here, but I could get some more cases together and hand them in formally.

2775. Then, Mr. Flynn, there are, I understand, a certain number of cases which you, as Accounting Officer, have refused to certify without the actual signature of the Minister himself?—(Mr. *Flynn.*) That is so, but I am even more concerned with the fact that the conditions under which pensions are awarded and the instructions which are issued are such that I feel sure that there must be a great many wrong pensions on the books without there being evidence that enables me to question them. Perhaps you would desire me to explain that in a little more detail.

2776. If you please?—Certain instructions are issued to Awarding Officers to decide cases, not by examination of the individual evidence, but by what I might term formulas. The main formula which was issued was that, when there was a question as to whether a man's disability was attributable to service, it was to be assumed to be so unless there was conclusive evidence to the contrary. Well, of course, it is very difficult to obtain conclusive negative evidence. In four particular cases there seemed to me to be markedly slight grounds for supposing that death was attributable to service. Surgeon-General Gubbins, who dealt with the cases—he was then head of the Medical Staff for Chelsea—passed them, and remarked, "A very doubtful case." I put those cases back to him, saying in substance: "It seems to me that those cases are passed under a formula, and not on the facts; will you say whether you passed them because you consider there was no conclusive evidence against them, or whether you passed them because you consider there is no good evidence against them, and whether you have given the men more than the reasonable benefit of the doubt?" He answered in these cases: "There is not conclusive evidence against the claims; there is good evidence against the claims; the men have been given more than the reasonable benefit of the doubt." That is only one of many cases in which it has been quite clear that under these formulas cases have been passed in which the man was given more benefit of the doubt than could be granted, I think, in reason. In many

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

many cases the doctors seemed to me to have acted on their instructions without saying that they considered the case was doubtful; for example, I might find a verdict on a case "aggravated by service"—a medical opinion. That would justify me, of course, on the face of it, in passing the claim, but I think it's quite likely that in some cases that "aggravated by service" only means that the chances are one out of twenty that it was aggravated by service, and the doctor felt constrained by his instructions to pass that as aggravated by service. Of course, I do not make such an assumption as that without a very large number of cases leading me to think it is so, so that, if I may sum up, the grave doubt in my mind is whether there are not a large number of cases of pensions which I cannot show to be wrong, but which may be wrong, the wrongdoing being covered up in the medical verdict.

2777. The medical verdict being given on a formula which is not certainly strictly accurate?—I do not think you could ever get a formula that would be quite accurate; you might use a formula to help you sometimes in cases of doubt. The least objectionable formula I have seen, I think, is the tuberculosis formula, which is that, if a man has been overseas in France and is discharged on account of tuberculosis, it shall be assumed to be attributable to service. Now, I think that would be nearly always right, but I have seen cases of men who desert who come back after eight or nine months, and are found to have tuberculosis, and that is assumed to be due to the service. If the man had deserted from France that would not make it a just case to allow, but that formula would be nearly always right. The determining factor, however, ought to be whether the disablement was or was not according to the evidence attributable

2778. Am I right in saying that you think the medical verdict wants more justification on the face of it?—I think so, especially as regards the past. The present medical officers do put their reasons very much more in the open, and I would like to make it quite clear that as regards the medical part of their verdict I am not attacking them at all. I do, in fact, feel the greatest confidence in their verdict on the medical point, but there are two parts really in the verdict as to attributability. What are the medical facts? What is the likelihood; and on that likelihood are you going to give the man the benefit of the doubt? If that is all covered up in one medical verdict, one medical officer may think that if there is one chance out of ten in the man's favour you should give. I have seen a grant based on a verdict of "perhaps 1 per cent. aggravated." On the other hand, another officer may think he will not pass the case unless there is 6 to 4 in the man's favour, which would be an unduly harsh view.

2779. (To Mr. *Barstow.*) I understand Mr. Barstow that the Treasury have had difficulties in many of these cases, and that they uphold the Accounting Officer as against the awards?—That is so. In both the cases to which Sir Henry referred just now as having been brought to the notice of the Treasury, the Treasury concurred with his view. I must qualify that I am afraid. In one of those cases, although *prima facie* the argument is strongly in favour of Sir Henry Gibson, the Treasury have gone no further than to ask the Ministry of Pensions for their opinion on that case. It reaches us as a query from the Comptroller and Auditor-General, and the Treasury have therefore put the case to the Minister of Pensions, and have not yet heard his view. We must suspend judgment upon that. In the other case the Treasury distinctly concur in the opinion of Sir Henry Gibson.

2780. And that was an opinion which also supported the report of the Accounting Officer of the Department?—Yes.

2781. You thought that the ground of the Accounting Officer on which the decision was based fully justified him in coming to that decision?—Yes.

2782. You agree with what he has been saying now about formulas?—I agree entirely on the subject of the formulas. I think perhaps Mr. Flynn has not fully

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

explained that; that, as I understand, the formula by which conclusive evidence against the man must be produced in order to rebut a claim for pension has now been abandoned by the Minister of Pensions. (Mr. *Flynn.*) I ought perhaps to have explained that, but the correspondence is not ended, and I understand a further reference is to be made to the Treasury which would practically propose to re-instate that formula as regards cases already on the books.

2783. Cases already decided or under consideration?—Pensions are granted, except for specific injuries as to which there is really no question of attributability, conditionally at first, and the disease watched. There are a large number of cases of men with conditional pensions which come up for review, and owing to the fact that these have been put on in many cases under these formulas to which exception has been taken, and which, at the point at which the correspondence rests at present with the Treasury, had been admitted to be incorrect, would be revised on renewal; but the Minister now holds that on grounds of policy it will be impracticable to review these cases once they have been put on the books on so stringent a standard as if they were new cases, and he proposes to go back to the Treasury on this point. I think I may say that the Minister fully realises the accounting objections to them; he is quite aware that I propose to mention these objections to the Committee, and quite willing that I should do so. He feels that grounds of policy will compel him to go back on the decision.

Sir *Charles Henry.*

2784. That grounds of policy will compel him to go back upon what decision?—On the decision that pensions should only be given if there was reasonably good evidence for holding it to be attributable to service.

Mr. *Higham.*

2785. In other words, he thinks that conditional persions already granted ought not to be reduced even although there be good grounds for reduction?—He would say not unless the error was palpable, I think.

2786. In short, unless the people were cheating?—Yes, or very gross error had occurred.

Chairman.

2787. I think we ought to get some of these cases before us with a full statement of them. We should like to have them with a full statement as to the cases themselves and with the correspondence both with the Comptroller and Auditor-General and with the Treasury, and with the accounting officer's report upon them. I think we ought to have them circulated, and we may have to ask Mr. Flynn to come back upon it, and we may have to ask the Minister himself to come. Are there four or five cases, Sir Henry?—(Sir *Henry Gibson.*) There are some four or five typical cases.

Sir *Charles Henry.*

2788. Are there any cases of overpayments of pensions outside of what might be attributed to the formulas to which Mr. Flynn has referred straining the warrant?—Many of the awards are made under those formulæ.

2789. My point is this: As I understood Mr. Flynn, he was referring to cases where there was uncertainty as to whether the disability was caused by service or otherwise; there was uncertainty on the part of the medical man, and as a rule the man had the benefit of the doubt. My point is whether irregularities have come to your notice of pensions having been paid in excess of what the warrant admits otherwise than through these conditions as regards the interpretation of the formulæ?—I think they would mainly come under that heading.

2790. The scale of pensions has been adhered to?—There is no departure from the scale laid down in the warrant. I may say the formula Mr. Flynn referred to generally relates to cases of men discharged for disability. One of the cases referred by me to the Treasury was as to the scale of pension given to the wife of an officer who has been killed, as I claim, not in any way

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. *Jowett.*

in the execution of his duty, and which ought not to have been at the higher rate. There was no question of a formula there.

2791. I wish to ask Mr. Flynn whether, in considering the irregularity of these awards, the fact is taken into consideration that the man was passed in on a medical examination, and if the man is passed in without any misrepresentation on his own account, is it not considered to be a factor in his favour, or rather leading to the validity of the award, if he has actually become ill afterwards while in the service?—(Mr. *Flynn.*) That is the great point which moves the Minister, but in some of the cases which I have queried there has been very strong evidence that the disability was not due to the service. Of course, under the conditions when men were only passed in if they were fit to be actual fighting soldiers, that was a good reason for presuming that if they became ill afterwards it was due to service; but directly you began to take men of low category, and they went out with an ailment that they came in with, there has not been the same ground for that presumption. (Sir *Henry Gibson.*) I have a case which reached me four or five days ago where a total disability pension was granted to a soldier after a total of thirty-three days' service, and it is very difficult to see—I have not got the facts in my mind—to what extent he could have been totally disabled during thirty-three days' military service.

Mr. *Higham.*

2792. Is it not possible that the man might have a disease, that it might be quiescent, and might remain quiescent during the whole of his normal life in a normal occupation, but he is forced into the Army and put to drills which, in a few days or a week, bring out the disease, and the man is crippled for life. In that case surely the man is entitled to his pension, although he might be only three days in the Army?—It may be all right.

Mr. *Jowett.*] And inoculation might bring out some disease.

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

GRATUITIES TO OFFICERS AND MEN UNFIT FOR FURTHER SERVICE.

Chairman.

2793. (To Sir *Henry Gibson.*) As to paragraph 9, Sir Henry, I suppose those scales which were drawn up by the Minister are all within the terms of the Warrant?—Certainly.

2794. Therefore you have nothing to do with them except to see that they are within the terms of the warrant; it does not matter to you how far below the terms of the warrant they are?—Not so long as they are granted within the terms of the regulation.

2795. Do you want to say anything about that, Mr. Flynn?—(Mr. *Flynn.*) I examine the awards under these discretionary scales to see that there is reasonable consistency, and I have had to make very strong protests in one or two cases, because it was proposed to agree to a higher award than the scale we had laid down, and bound ourselves to, to cover up the fact that an error had been made. I did not consider that was a justifiable ground, and protested to the Minister, and he took my view.

OVER ISSUES OF TEMPORARY ALLOWANCES.

2796. (To Mr. *Barstow.*) As to paragraph 10, Mr. Barstow, has the sanction of the Treasury been given for the writing off of these losses?—Yes, the consent has been given.

2797. How did they arise, Mr. Flynn?—(Mr. *Flynn.*) Largely from lack of sufficient staff and the inexperience of the staff.

2798. I suppose the Treasury realised that, Mr. Barstow?—(Mr. *Barstow.*) Yes.

(The witness withdrew.)

Thursday, 13th June 1918.

MEMBERS PRESENT:

Sir Hildred Carlile.
Sir Henry Craik.
Mr. Haslam.
Sir Charles Henry.
Mr. Higham.
Colonel Sir Herbert Jessel.
Mr. Leif Jones.
Sir Robert Williams.
Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

ARMY APPROPRIATION ACCOUNT, 1916-17.

Sir CHARLES HARRIS, K.C.B., called in; and Examined.

Chairman.

2799. (To Sir *Charles Harris.*) Is there anything on the Treasury Minute, Sir Charles?—I think there is one point I ought to mention to the Committee arising on the Treasury Minute. Giving evidence here in May of last year, I informed the Committee that as regards contracts in Egypt arrangements were then in force by which the Local Resources Board, consisting partly of Egyptian Government Officials, was practically making or supervising all our contracts. That, I think, the Committee accepted as a satisfactory arrangement. It came to my notice only last week that at the very time I was giving that evidence a letter was in the post from the General to say that he had taken into his own hands again the making of contracts, and was using the Local Resources Board as an advisory body to which he had recourse when he saw fit or thought there was necessity. Consequently it can no longer be said that the Local Resources Board has complete control of Army contracts. How far there is any substance in the change I have not been able to ascertain. I have asked my officer in Egypt to give me a report upon that point, and perhaps I may be in a position to say something further to the Committee before the Committee reports. I thought it right to inform the Committee that my evidence was quite unwittingly incorrect.

2800. It was correct at the time?—Except that the change had actually been made, and the General's letter

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

letter reporting that he had made it was in the post at the time I was giving evidence. It did not come to my personal notice until last week.

2801. You will report to the Committee again?—I will do so if possible before the Committee reports.

2802. Are you going to allow the change to stand?—The making of contracts is outside the province of the Accounting Officer, but I am proposing to take the matter up with the contracts authorities, and, if necessary, with the military authorities, and to see that the thing is again looked at from all points of view.

Mr. *Higham.*

2803. Had the General decided this on his own initiative?—Yes, it was the General Officer Commanding; whether it was General Allenby personally I am unable to say, but the Regulations say that the military authorities are responsible in war for making their own contracts. The Regulations undoubtedly give them power to make contracts, and the General, judging the circumstances, which, of course, he was fully aware of, judged that the time had come to resume that power. (Sir *Henry Gibson.*) We had last year a very unsatisfactory case.

2804. High charges for handling meat?—Contracts had been made by the military authorities, and it was stated to the Committee that through the change that had taken place those sort of cases would not arise again, because the contracts had been put into the hands of a more responsible and business-like body. (Sir *Charles Harris.*) Quite unwittingly I left the Committee under a false impression as to the state of matters. (Sir *Henry Gibson.*) It is rather astonishing that the War Office, either the military authorities or the contract authorities, should have supported the General in his change of attitude.

2805. How did it happen that it did not come before you, Sir Charles, until last week, although it happened last year?—(Sir *Charles Harris.*) I am afraid, like many other papers, it was handled by members of my staff who did not appreciate the importance of the change from the point of view of this Committee; I must plead in extenuation that my staff has been diluted and combed out to an almost inconceivable extent. I started the war with 1,500 people, who knew their work. I now have 35,000 people, and many of the most valuable members of the original 1,500 have been combed out and gone to fighting duty in the Army. Consequently one is working very largely with an improvised and untrained staff, and I am afraid instances of this kind will happen.

2806. Did the military authorities themselves or the Contracts Department take any note of this change?—The paper, I found, had been seen by the contract authorities and also by the military authorities, and they had apparently accepted the position. I have now referred the paper to them so that they may give a somewhat more active type of consideration to the question.

2807. And we will await the result of that consideration?—Yes.

2808. Referring to paragraph 22 of the Treasury Minute, "Use of Cost Account by the War Office," that you are doing still?—Precisely; that has gone on still.

2809. And as to paragraph 37 of the Minute, have the same steps been taken with regard to economy in the feeding of troops?—The Army Council has conducted a propaganda on the subject of economy throughout the whole of the past 12 months, and as the Committee may know there is now a very extended and powerful organisation for salvage not only in this country but also in France.

2810. This is more an economy in the feeding?—The economy in that respect has continued undoubtedly.

2811. As to "Compensation for Loss of Agricultural Rights," paragraph 40. You will remember there was a question about appointing official arbitrators?—That is a very important question, and the present position of it is this, that Sir Howard Frank (the Director-General of Lands) and myself have put before Mr. Leslie Scott's Reconstruction Committee on the pur-

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

chase of land a joint memorandum in which we have made certain definite proposals as to the future course in arbitration; that is now under consideration of Mr. Leslie Scott's Committee.

2812. We will now go to the Report of the Comptroller and Auditor-General, on page 68 of the Army Appropriation Account. I daresay the Committee have read this?—Before the account begins, may I ask for a ruling from this Committee on the question of the preservation of accounts, and if I may I will hand in a note on the point which I desire to raise. It is a point I have discussed semi-officially with the Comptroller and Auditor-General, and perhaps the Committee would return to it at some future time (*handing in the note*).

2813. (To Sir *Henry Gibson.*) As to paragraph 1 of your Report, Sir Henry, this form of Appropriation Account is practically the same as last year?—The form is the same. That which is suggested by the War Office is preferable, as it gives some idea of the expenditure.

2814. (To Sir *Charles Harris.*) As to paragraph 2, Sir Charles, "charged to the Vote of Credit" the amount of Appropriations in Aid was very large?—Yes, we took a supplementary estimate in March, 1917, to appropriate forty millions, but unfortunately we had under-estimated, and in various theatres of war the receipts under Votes 7 and 8 for Sales of Stores and Provisions carried it above the forty millions figure.

2815. So that you want an excess vote of £2,065,391 6s. 8d.?—Quite so; we shall take an excess vote in due course. (Sir *Henry Gibson.*) You will take a Token Vote? (Sir *Charles Harris.*) It is only a Token Vote.

2816. I imagine the Committee would have no difficulty in agreeing to that Excess Vote. As to paragraph 4 the National Expenditure Committee is looking into that question of Treasury control. As to paragraph 6, it refers to considerable detailed changes in the organisation of the contract work of the War Office?—Mr. Andrew Weir came into the War Office early in 1917 as Surveyor-General of Supplies. The Contract Branch was at a very early stage transferred from the Finance Member to the Surveyor-General, and he has made various reconstructions. One of the principal is that he has divided the work of dealing with raw materials—wool, leather, and such things—which are specially accounted for under the Vote of Credit, from the work of purchasing finished products, so that there are now a Director of Raw Materials and a Director of Army Contracts. Mr. Wintour dealt with the whole province.

2817. Those raw materials come under the Vote of Credit?—They come under a special account in the Vote of Credit.

Mr. *Leif Jones.*

2818. Are you satisfied, Sir Charles, with the division of functions in this way?—It is of course a balance of advantage and disadvantage, but I think that the work of dealing with raw materials is very different from the work of dealing with manufactured articles. There is a tremendous volume of such work. We are dealing with wool alone to the extent of a large number of millions. The importance of the work is so great that the appointment of a second Director is justified by the results.

Chairman.

2819. With regard to paragraph 8, Sir Charles, "Employment of experts before completion of agreement as to terms." That is a curious thing?—On paragraph 8 I think there are some circumstances which I ought to bring to the notice of the Committee which perhaps may affect their judgment of what happened. In the first place, I should like to explain that this was not a payment of £20,000 to an individual for his own profit in any way. It was a payment to one of the very largest firms in the West Riding of Yorkshire for the services of one of the principals of the firm, and out of the £20,000 had to come the whole of the staff and office expenses. There were two sums, £10,000 for British orders and another £10,000 for Allied orders. Further, we were informed before we made the payment that the whole thing had resulted in a loss to the firm; they had not actually covered their expenses. A further point I should like to

13 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., and Sir C. HARRIS, K.C.B. [*Continued.*

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

explain is that the failure (there was undoubtedly a failure; the War Office does not deny that) was not so much the failure to complete and sign the agreement, because the legal advice on which we acted was to the effect that under the circumstances we must act on the agreement as if it had been signed.

2820. When you say you acted on legal advice, do you mean the advice of the Law Officers of the Crown?—The Treasury Solicitor. The flaw in the agreement, if it was a flaw, was that although it gave power to terminate the contract for service, it did not say that if the contract was terminated before the year had expired the full limit for the year should not operate. The limit for the year was £20,000. It may be thought to have been a weakness in the contract that if it was terminated at the end of six months the payment should have been limited to half £20,000, or £10,000, but that would have entirely altered the nature of the agreement, and I doubt very much whether we should have got the firm to agree on those terms at all, for this reason. The essence of a stop at £20,000 in a case like that is that you are providing for the case in which the commission calculated as a percentage upon orders outruns the proportion of the limited total for a year. As a matter of fact in the working of this agreement the commission calculated as a percentage upon orders had reached £20,000 before six months had expired. If the agreement had been duly stamped and sealed, and had provided that the total payment was to be proportionate to the duration of the work, and was therefore to stop at £10,000, the position of the firm would have been that having drawn this commission at a quarter per cent., which was the arrangement made, month by month while they were doing the business, they would have drawn £20,000 by the end of six months. If the agreement had then been terminated we should have had to call upon them to refund £10,000, which they had already drawn. That, I think, would have been an impossible position, and I do not think any business firm would have accepted it. Therefore, I am not sure there was very much the matter with it, except that the quarter per cent. commission which was named was perhaps rather high, in view of what turned out to be the very large quantity of business which was done.

2821. It was not expected?—It was impossible to forecast, and it was not expected that it would have been so much.

2822. No provision was made for a sliding scale?—No, except that there was a definite stop at £10,000 for ourselves and £10,000 for the Dominions.

2823. What was the ground of the advice that you were bound by the agreement, although it was not completed, because the work had been done?—Negotiations had gone on at first verbally. The Director of Contracts had interviewed this Principal and another director of the firm. The terms had been verbally settled, and the agreement had been drafted, and a copy of that agreement had been given to the individual concerned to take back to Yorkshire with him to consult his firm about. We had made that offer, and it only rested with the individual concerned to formally accept it. The Treasury Solicitor therefore said that we were practically bound by our own offer.

Mr. *Leif Joncs.*

2824. I think you said the firm did not cover its expenses in this matter?—That is as they informed us.

2825. I was going to ask what knowledge had you as to their expenses?—It rests wholly on their statement?—We did not question or doubt that statement in any way, and, of course, we knew that this principal had constructed a very large organisation in Yorkshire for dealing with all questions of manufacture of cloth and kindred matters of that kind.

2826. You also said that you thought the quarter per cent. commission was rather high considering the quantity of work done?—I was looking at it from the point of view that if £20,000 was a proper limit to place for the twelve months we should not have chosen such a rate of commission that we should have been over the mark in the first six months, and from that point of view there was clearly a discrepancy somewhere.

2827. Still, if a payment of a quarter per cent. commission would not have repaid them their expenses, it can hardly be called high?—No; looking at it *expost facto* that would be the case.,

Chairman.

2828. (To Sir *Henry Gibson.*) With reference to paragraph 9, Sir Henry, "Dominion Contingents, etc," that is quite a proper arrangement, and you had no difficulty in agreeing to it?—No; it is what has been in operation throughout the war.

Mr. *Leif Jones.*

2829. How were the rates settled?—(Sir *Charles Harris.*) The rates with the Dominions have been settled practically by negotiation between myself and the representatives of the Dominions, the High Commissioners and others in London.

2830. Did you have much trouble in arriving at a basis?—No; we produced the best materials and statistics for the calculation of rates that we could, and the representatives of the Dominions met us very reasonably.

2831. You are quite satisfied with the arrangement made?—Perfectly. (Sir *Henry Gibson.*) The same procedure took place with regard to the Indian troops. (Sir *Charles Harris.*) Very much so.

Chairman.

2832. Does any question arise on paragraph 10, which deals with the Imperial Service Contingents from South Africa?—I may say as regards paragraph 10 that the Dominion of South Africa has continued to make considerable contribution to the war in later years.

2833. As to paragraph 11: "Indian Expeditionary Force," I see reference is made to the special allowances to British troops serving in India during the war, but what about Indian troops serving in Mesopotamia under the War Office?—The pay, allowances, and so on of Indian troops in the theatres of war are administered by the Indian Government, and we pay the Indian Government bill as audited by the Indian auditor. Before departing from their standard regulations—before making regulations which are more favourable to the troops—they consult us, as the expense falls largely upon Imperial funds; but in the matter of the treatment of native troops like that under campaign conditions we are obliged to be guided in the main by the judgment of the Indian Government.

2834. Clearly. Therefore British officers with native troops who are serving in Mesopotamia retain all their Indian privileges and all their Indian allowances, although they are being paid by the War Office; is that so?—If they are serving still in the Indian Army they do so retain them, but a point of some difficulty has arisen since the Mesopotamian campaign has been run direct from London and not from Simla. We have been trying to assimilate the pay of officers who are part of the Indian Army to the pay of officers in France and elsewhere under War Office management, and an arrangement has been made that those officers who were drawing Indian rates of pay originally, and were promised continuance when they went to Mesopotamia should be allowed to continue, but if they are promoted to a Staff appointment and leave the Indian Army they come on to the new footing, and are paid at the same rate as officers sent out from Great Britain to Mesopotamia.

2835. If they leave the Indian Army?—That is so.

2836. But as long as they are in the Indian Army?—They draw Indian rates.

2837. Even though promoted in the Indian Army?—Yes.

2838. Being still belonging to the Indian Army, even if they get an English Staff appointment, they retain the rates of pay and allowances of their Indian rank?—If it is a Staff appointment in the Indian Army, yes.

13 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., and Sir C. HARRIS, K.C.B. [*Continued.*

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

yes. Supposing a man was made a Brigade Major of the Indian Army, he would get the Indian emoluments of that post.

2839. Supposing that same man was considered particularly fit, and was made a Brigade Major of the English Army?—Then he would have left the Indian Army, and would have come on to the Imperial establishment, and he would take that appointment at Imperial rates.

2840. And he is given his choice?—He can always refuse the appointment. He has his choice practically.

2841. Even although the new appointment means promotion; he has the choice of refusing the promotion at the risk of losing money?—Yes.

2842. That is not fair, is it?—I am not sure that a case arises where he would ever lose money.

2843. If he gets promotion his Indian allowances are stopped very often?—I do not think a man would be offered an appointment which would mean that he would have to drop money to get it. He would be perhaps a company commander in the Indian Army, and if he were offered an appointment on the British side, it would probably pay him.* In practice I do not think the case would arise.

Sir *Henry Craik.*

2844. May I ask whether the allowances while with the actual Expeditionary Force are larger in our own Home Forces or in the Indian Army?—I am afraid it is not possible for me to give a simple answer to that question, and I would prefer to say something about that at a later meeting. The whole question of the comparison of the Indian pay code with the Home pay code is intolerably complicated. I cannot carry it in my head.

2845. Can you tell me this? Is the difference in the special allowances for the Expeditionary Forces larger or smaller in the Home Army or in the Indian Army?—Generally speaking, I think I should be right in saying that our Home Army man, in comparison with his position in peace, is better off in the Home Army than in the Indian Army; the difference is greater.

Chairman.

2846. Is there anything in paragraph 12?—I should like to say, if I may, about paragraph 12 that the nominal losses there set down are not actual losses to a very large extent; they are cash which has not been accounted for and also stores which have not been properly accounted for. The force was shut up in Kut before it surrendered for at least four or five months after the date of the last accounts it rendered, and its legitimate consumption of cash and stores during the five months really affects those figures.

2847. These are the figures with regard to those who were shut up in Kut at the beginning of the siege?—Yes.

2848. If you could have got the store account at the end you would have found it very much smaller?—Quite so.

2849. In fact the troops were fed out of this during the four months as long as it lasted?—So far as they paid cash for it.

2850. And the stores?—That is so.

2851. (To Sir *Henry Gibson.*) With reference to paragraph 13, Sir Henry, "Expenditure on operations in East Africa," was it an alarming weakness which was evident in certain directions as to the cash and store accounting?—No, and I think there is considerable improvement as compared with the previous year.

2852. Was it the Colonial Auditor who reported that the weakness was still evident now?—The Colonial Auditor carries out the audit of these War Accounts, and reports to the Director of Colonial Audits, and his reports come both to me and to the War Office. He acts really as our joint auditor.

2853. It is the Colonial Auditor, and not the Director of Colonial Audit?—That is one of his local staff.

2854. (To Sir *Charles Harris.*) With reference to paragraph 18, "Financial Control in Expeditionary Forces," have you anything to say on this question which the Local Auditor in Egypt raised about the use of motor cars?—There was a misunderstanding about that, but it was finally cleared up. The military authorities read a very general paragraph in what are called the Field Service Regulations as bearing upon the point, when it was really not intended to have any bearing upon it at all. I will read to the Committee the paragraph upon which they based this: "Field Service Regulations, Part 2, paragraph 1: The successful issue of military operations depends primarily upon the combination of unity of effort directed with energy and determination towards a definite object. Unity of control is essential to unity of effort. This condition can be ensured only by vesting the supreme authority in one man, the Commander-in-Chief of the Forces in the Field, and by providing him with the means of exercising the required influence over the work and action of every individual. The main object of war organisation is to provide those means."

2855. That was held to cover the use of military motor cars for civil picnics?—Not so much the substantive point; but it was held to give the General Officer Commanding in the Field the power to ignore or overrule any representations made by my representative as accounting officer. On that the military authorities were corrected.

2856. And they have accepted the correction?—Certainly.

2857. And the Regulations are in force?—Quite.

2858. As to paragraph 19, there are apparently a good many of these unvouched cases, Sir Henry; is there any considerable number?—(Sir *Henry Gibson.*) I do not think, having regard to the enormous number and variety of the accounts and the difficulty, it can be regarded as anything but relatively moderate.

2859. The percentage is not high?—No. (Sir *Charles Harris.*) I may mention that the principal cases of this unvouched expenditure are cases where the accounts have disappeared owing to submarine activities.

2860. Referring to paragraph 20, Sir Henry, you received that confidential information that the numbers were correct?—(Sir *Henry Gibson.*) Yes

2861. As to paragraph 24, Sir Charles, "Non-Recovery of Allotments," the Royal Warrant of December is acting?—(Sir *Charles Harris.*) Yes. In one particular it has considerably simplified accounting; that is to say, that the normal compulsory allotment has disappeared altogether. That makes the account simpler. In other respects I am sorry to say it has very considerably complicated accounting, but I believe it has had a very satisfactory effect in the Army; the men, I believe, have felt that they really have appreciably better pay.

2862. Were you consulted as to the form of the Warrant, as to whether it would complicate matters unduly, or anything of the sort?—I made representations upon that point to the War Cabinet Committee which went into the matter, and they met me to some considerable extent. For instance, in the matter of totally abolishing the allotments instead of modifying the scale of them. I pressed, if they were going to spend so many millions, that they should at any rate make a clean sweep of the allotment altogether for the purpose of simplicity in accounting, and on that point they met me, but you cannot really alter a man's scale of pay without complicating his accounts.

2863. As to paragraph 26, "-Separation Allowances." These new steps have been taken at the Fixed Pay Centres?—Yes, the principle we adopted after trying various methods was this, that all the accounts are kept on loose sheets in binders; the man's account for pay and the woman's account for separation allowance lie side by side in the binder always, and in that way there is no danger of the woman's separation allowance running on after the man's pay is stopped, and things of that sort. It has greatly facilitated the check.

2864. With regard to the matter of over issues and recoveries dealt with in paragraph 27, how did this claim come not to be made?—The particular claim dealt

Note by the Witness.—I omitted to state that an officer in such circumstances has the option of retaining the Indian pay of the post he quits.

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

dealt with in the last two lines of this paragraph had not been made at the time the Comptroller and Auditor-General's officer inspected that office. I am assured that the claim would have been made sooner or later, but I am bound to say, exercising an independent judgment, as the over-issues had been stopped in January, 1917, and the Comptroller's officer did not inspect the office until April, 1917, I think that the delay in making the claim was indefensible.

2865. And proper notice has been taken of it?—Certainly. The error, I daresay, had not passed all our guards. It would have been picked up sooner or later, but there ought not to have been any necessity for picking it up.

2866. Have you anything to say with regard to the delegation of the Army Council powers of write off in commands, which is dealt with in paragraph 28?—That has worked very satisfactorily indeed.

2867. It has not led to extravagance at all?—I think not at all.

Mr. *Leif Jones.*

2868. To what extent has it exercised this power of writing off? Does it go to large sums?—In all important cases my local Auditor examines the cases thoroughly, just as I should do at the War Office.

2869. Of course, writing off is rather a serious operation, and I should be very much afraid if it is entrusted to a large number of people that it will be misused?—I think that is fully recognised, and the powers given to Regimental Paymasters, who are themselves important men (they are head of an office with 700, 800 or 900 clerks), are limited to £1.

2870. You are satisfied the power is not abused?—Quite.

Chairman.

2871. (To Sir *Henry Gibson.*) With regard to paragraph 29, Sir Henry, dealing with the clearance of outstanding balances, you are satisfied with the result of that investigation?—Yes, it was looked into very carefully by a Joint Committee of the Officers of the War Office and the Treasury, and I think they have carried out their difficult work very satisfactorily. (Sir *Charles Harris.*) I think the work of the Committee was most satisfactory and valuable.

2872. It was very satisfactory that the scope of their inquiry was enlarged?—That is so.

2873. I notice, Sir Charles, that paragraph 31 states that the general failure of the Company and other offices to keep and render proper accounts was largely owing to the complexity of Army regulations and accounting, and to the lack of accounting experience among officers of the Territorial Force and the new armies; but is it possible to get rather a simpler form of accounts, which would be more within the comprehension of the average men who go to the Army?—We have all been aspiring to that ideal for years, and although it is quite easy to express general aspirations in that direction, I examined the War Office member of this Joint Committee as to whether he had any concrete suggestions for improvement to make, and I found none of any importance. The National Expenditure Committee examined the Treasury member of the Board, and I do not think that the Treasury member found himself in a position to make any concrete proposals of importance. The Treasury expressed a desire to have the whole subject overhauled at once by a Committee. That appeared to me to be almost impossible to carry out at the time, because my Pay Offices have all through the war been working under an absolutely excessive strain; there are nearly 25,000 almost entirely untrained men and women in the pay offices; they have all they can do to get through the day's work on the present system, and any attempt at re-organisation would, I think, be ill-timed. I made representations to that effect to the National Expenditure Committee, and the National Expenditure Committee dealt with the matter in their Report, and advised that, although there should be a general review of the system, this was not the time for it. The Treasury, in a later letter, took up what is really quite

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

a different point, and suggested that the internal routine of the Pay Offices required revision. I may say that the faults which were dealt with by this Committee were not faults arising to any considerable extent inside the Pay Offices. They came to light in the Pay Offices, but they arose outside—that is to say, they were the faults of the company officer ignorant of accounting. If I may say so, with great respect, the Parliamentary Recruiting Officer had a great deal to answer for, and all those faults came into focus inside the Pay Offices, and required the writing off of these, which are, after all, moderate sums, considering the hundreds of millions which passed through my Pay Offices. The Treasury, in the later stages of the correspondence, took the view that the internal organisation of the Pay Offices requires readjustment, and as soon as the Pay Offices had got over the disturbance of their duties caused by the new scale of pay last winter, the War Office did take steps to appoint a Committee of experts to go into the internal organisation of the Pay Offices, and that Committee, under a very eminent chartered accountant, is now sitting.

Mr. *Higham.*

2874. Are they taking evidence from the officers themselves who have to deal with these accounts? Have they asked their advice on the matter?—As regards the officers themselves, if there is any reason to think a man has been culpably negligent or dishonest in the matter of accounts, of course he is dealt with very strictly.

2875. That is not my point. Those company officers are bound to know best of all the weak places; has their advice been asked? You will have some good accounting men among them?—We are continually in touch with Company officers about that, and their point of view is thoroughly understood, but so long as they have any accounting to do, even the simplest accounting, there is a very large number of men who get commissions in the Army who seem constitutionally incapable of doing any accounting at all.

2876. That is a reason, is it not, for making the accounts as simple as possible?—We have made the accounts, I believe, as simple as they can be made. May I tell the hon. member what the company officer in the field has got to do? He has to draw from one of my officers, called the Field Cashier, in France we will say, the pay of his company, 1,000 francs, and he draws that in 5-franc notes. The pay is only issued to the men in 5-franc notes, and a man may have when the pay comes round 5 francs, 10 francs, or 15 francs, as he asks. All that the company officer has to do is to write down the names of the men to whom he pays money and the amount he pays to each, and to write the same thing in the pay books of these men, which each man carries always in his pocket; to get the men's receipts for that amount, to sign his own name at the bottom of the sheet of paper, and to send it off to my Paymaster at the base. Then he has to account to the Paymaster for the difference between the 1,000 francs he drew from the Field Cashier and the amount which he paid away to the men. I do not see how any accounting for public money can possibly be reduced to simpler terms.

Mr. *Leif Jones.*

2877. There is a very odd sentence in this paragraph which I really cannot pass over: "The Board state that officers dealing with Army funds have generally not derived any personal pecuniary advantages from their financial irregularities." It is suggested that some have?—There have been one or two regrettable cases in which the distinction between *meum* and *tuum* had not been sufficiently preserved. Those cases have been dealt with, and they are few.

2878. From your account of the way the company commander has to deal with his money, it seems to me if he does not keep his accounts he is the man who is victimised; he will be out of pocket all the time?—Of course he has had the money from the Field Cashier before he pays the men, and if he renders in any way an incorrect account of what he pays to the men he may not be the loser.

2879. Do

ARMY APPROPRIATION ACCOUNT, 1916-17.

Sir *Hildred Carlile.*

2879. Do you mean that there may be names on the apparent strength which are not there?—There would be various methods if a man set out deliberately to defraud the public in matters of that sort. There are various possibilities.

Mr. *Haslam.*

2880. When a man leaves the Army is there not a question of squaring his account? Is there not a debtor and creditor account?—Yes, invariably when a man leaves the Army; and I may say at the present time, having got the accounts in my Pay Offices up to a certain pitch of correctness, I am telling Pay Office after Pay Office that they are now to agree with the men, whether they are in France or at home, the accounts up to a certain date, and get the man's signature that at that date he acknowledges a balance of so much, and that will be a new base line from which to go forward.

2881. There has been considerable dissatisfaction in some quarters with regard to the final settlement of these accounts, but according to what you tell us now there has been an improvement in that direction?—Out of thirty pay offices I think half of them have already been in communication with all their men, and I hope long before the end of each year that we shall have got an agreed account with every soldier.

2882. In one case the place was burnt down and all the accounts lost?—That was in Dublin, and we got out of that much better than I expected. From one source and another we have been able to a large extent to reconstruct the accounts, but in this amount written off there is a certain considerable sum which relates to the Dublin case.

Mr. *Higham.*

2883. Is the largest proportion written off for events which have occurred in France or at home?—These are chiefly, almost entirely, items which relate to home, because the function of the Treasury and War Office Board was to adjust the accounts of the units up to the time at which they left home for France.

2884. You described the simplicity of the pay sheet in France; is not the pay sheet at home much more complicated, and the work much more complicated?—The thing at home is, it is true, rather more complicated in that at home the officer has to keep to a certain extent the soldier's domestic accounts. That is to say, if the soldier has to buy a new article of clothing, or it may happen that he has pay stopped for this, that or the other. Instead of his being given cash and told to pay his bills with cash out of his pocket, it is debited to him in his account. To that extent the thing is a little more complicated, but still the account between the officer and the Paymaster is an exceedingly simple one.

Chairman.

2885. With regard to paragraph 32, Sir Charles, "Modification of Accounting Procedure," that arrangement has simplified procedure, has it?—This is a slight departure from the old standard of perfection in public accounting that has really given tremendous relief both to the company officers and to accountants.

2886. And has not resulted in a loss to the State?—No loss at all; I see no possibility of its ever resulting in a loss.

Sir *Charles Henry.*

2887. As to paragraph 33, "Acquittance Rolls from France," what do we understand by an acquittance roll?—The acquittance roll is what I described just now—the sheet of paper with the names of the men and the amount each has drawn in pay.

2888. And is the 238,000,000 francs referred to the amount which has been collected?—That is the amount which, after being sent down by the Company Officer to the base and then sent to the appropriate Pay Office at home has not been finally accounted for. Before the Roll is accepted, as it is called, the payment has to be debited to the account of each man; each account has to be traced, it has to be charged to the proper account, and then the Paymaster, who keeps

ARMY APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—*continued.*

the ledger accounts, intimates back to the Paymaster in France that he accepts a charge for so many francs. The 238,000,000 francs is the total amount that has not yet been accepted in that way.

Mr. *Haslam.*

2889. Does the question of exchange come in with regard to the francs? It is not considered, is it?—No. (Sir *Henry Gibson.*) It is a fixed rate.

Sir *Charles Henry.*

2890. What is the rate?—It varies from time to time.

2891. What is the present rate?—(Sir *Charles Harris.*) I do not know what it is at present, but it is varied from time to time.

Chairman.

2892. How often do you say it? Do you change it once a month, or something of that sort?—Yes; it is fixed by the Treasury once a month—the proper rate of exchange. (Sir *Henry Gibson.*) Five francs equals 3s. 8d. I think at the present time.

Chairman.

2893. We now come to Vote IV., "Territorial Force Associations," and, dealing with paragraph 34, I would like to ask, Sir Henry, if you have got any answer yet to your communication to the Army Council on the subject of annual grants?—(Sir *Henry Gibson.*) Yes, they replied on the 6th of March, stating that the matter had already engaged their attention, and the letter goes on: "These Establishment Grants exceeded expenditure during 1916-17 by about £15,000 in the aggregate, and the Council anticipate that during the current financial year this margin will probably be reduced by increased cost of clerical assistance. It was decided, on a recent review of the position, to withhold the General Purposes Grants for 1917-18. Instructions were issued to associations on 19th November last, in War Office letter 9/Gen. No./6,923 (F III.), of which a copy is enclosed. The general position of Territorial Association finances has been kept constantly under review. Uncertainty as to the future status and duties of these bodies makes it impossible to do anything at present unless on a purely provisional basis, and without prejudice to what may happen when the Home Forces are ultimately reorganised. Meanwhile the Council are not prepared to take any step which would reduce the Associations to the positions of mere agents, whose accounts would have to be audited and whose administration would have to be correspondingly controlled by this office."

2894. Under the circumstances, you concurred in that?—Yes.

2895. Vote IV. itself is on page 14 and Vote V. on page 15, but they are merely summaries. There is one question on page 15; I see that there are certain courses of languages given to young officers. What are the languages?—(Sir *Charles Harris.*) They are now almost entirely in abeyance. There was a considerable sum spent annually, on Continental languages and Japanese mostly.

Sir *Henry Craik.*

2896. With regard to the Royal Military Academy and Royal Military College, sub-heads A and B, the fees charged are smaller now?—The fees are entirely suspended now.

2897. Has that not increased the charge?—That has very largely decreased the amount of appropriations-in-aid; it was brought to credit only as appropriations-in-aid. The normal appropriations-in-aid of that vote were a good many thousands in peace time.

Chairman.

2898. Coming to Vote 6, have you anything to say about this paragraph 35, which deals with the acquisition of Stobhill Asylum for a military hospital?—That was an unfortunate misunderstanding, owing to the fact that the Glasgow Territorial Association and the Glasgow

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

Glasgow Parish Council made an arrangement of the effect of which the War Office was not fully apprised until it had made the first payment under the arrangement. Fortunately, the Comptroller and Auditor-General discovered what the War Office had overlooked or had not known, that a payment which was not really a proper charge was included in the sum we had paid.

2899. The sinking fund charge?—Yes. I have no doubt the arrangement looked perfectly equitable to the two local authorities in Glasgow who made it, but, looked at from our point of view, it required revision.

2900. And that ought to have been seen when the arrangement came up to you for sanction?—The arrangement was sent up to us in a form which failed altogether to disclose it.

2901. Because of the omission of the Territorial Forces Association to report it?—The Territorial Force Association wrote up to us to the effect that they had undertaken to pay the maintenance and outgoings, and not saying that that included a Loan Redemption charge.

2902. And then when you made the first payment it was not noted by the War Office that it was a very large payment and must include more——?—Quite so; I think there was on the part of some representative of the War Office some element of oversight.

2903. Due notice has been taken of that?—I have not taken any disciplinary step about it, because it was a payment which was made locally, and the local man would think, "This has been approved by the War Office; it is all right."

2904. Why would he think that it would be approved by the War Office?—It had been approved by the War Office on this insufficient information.

2905. How did it come under the Comptroller and Auditor-General's notice at all?—There we have the benefit, I think, of the greater independence of judgment of the Comptroller and Auditor-General's officers as compared with a departmental officer like mine.

2906. Was it found out in Glasgow or in London?—He found it out in auditing the Scottish Command accounts.

Mr *Leif Jones.*

2907. Do you think you ought to take special precautions in dealing with a Scotch local authority?—I will note that for future guidance.

Chairman.

2908. (To Mr. *Barstow.*) I observe, Mr. Barstow, at the end of the paragraph that the Treasury agreed to the terms eventually?—The Treasury agreed that the arrangement finally made by the War Office was a satisfactory one.

2909. As to paragraph 36, "Railway Transport in France," is that Railway Finance Commission of yours doing its work well, Sir Charles?—(Sir *Charles Harris.*) It has done its share of the work extremely well, and has proved a very valuable body, but the main agreement that it has negotiated with the French Government has not yet taken effect, because the French Chamber has still to formally accept it. Our Railway Commission has done all that it possibly could do to further that.

2910. On that, do you find that the financial arrangements of the French Chamber make them slower in agreeing to these things than the House of Commons would be?—As far as one can judge the French are altogether much slower, much more formal and much more red-tapey, as we should say, than we are.

2911. Their whole system?—Their whole system.

Sir *Charles Henry.*

2912. Do you find the French exacting in the charges they have made upon you for their railway service?—So far there has been no final arrangement of any charges with the French; the whole thing stands in the state of advances on account.

2913. You do not know what rates they are charging you at all then?—The rates are not finally accepted by the two Governments. Our side is quite prepared to accept, and has notified the French Government to that effect. The French Government has not yet got authority from its Chamber to accept.

2914. Is it likely that they will raise the rates from those already provisionally made, and which you have accepted?—The arrangement is that the bills have so far been made out at what one might call the French military tariff dating from before the war; that is to say, the agreement that subsisted before the war between the French Government and the French railways for military traffic. The new arrangement is for an advance of so much per cent. upon those rates. It is quite inevitable that advances in rates should be made.

2915. I suppose the French Government has taken over the railways as our Government has?—No, as far as I know they have not; for instance, one big French railway has sent representations to me to-day that they are very short of cash, and cannot I give them some more on account, so that they are not being financed in the same way as our railways are.

2916. Therefore, you are not trading with the French Government, but with the railway companies in France?—We are trading with the railway companies. Of course, some of the railways are Government railways, and whether they are Government railways or not we are treating with them through the French Government. We stipulated that we should deal with the whole thing through the French Government.

Chairman.

2917. With regard to paragraph 37, Sir Charles, "Control of Motor Transport," has that consideration of this question of the administration of mechanical transport been completed yet?—We have made some substantial advance I think; it is not yet quite settled, but we have, I think, come definitely to the conclusion that it is best that the Ministry of Munitions shall undertake the administration of all this mechanical transport, because their contractors require more of it than perhaps any of the other services, and they are able by administering the thing centrally to see that a lorry which carries goods in one direction for us comes back with a load for them, and so on, so that there is a great deal of economy in the central management. It is accepted in principle, but the details are not yet worked out.

Sir *Hildred Carlile.*

2918. Are the contractors charged a higher price now, do you know, since this note has been made?—The Munitions Department has revised its rates, and I think that they are charging the contractors now a perfectly sound commercial rate.

2919. One as high as the one they are actually paying?—I hope we have got rid, under this new arrangement, of the necessity for hiring altogether, so that the Government will not have to hire with the one hand and let with the other. That was the weakness.

2920. Does that re-arrangement account at all for the reduction in the amount from £20,000,000 to £7,000,000 in the year, or how is that accounted for?—I do not think it would have any appreciable effect upon that.

2921. There is such a large diminution on the outlay for mechanical transport? Is there a reduction from £20,000,000 to £7,000,000 on this account?—The principal feature of that is that the provision of mechanical transport was at a certain date in the year taken over by the Ministry of Munitions from the War Office.

2922. So that one of the figures is only for part of the year?—Yes.

2923. Have we the details as to what proportion of the year they refer to?—If you would look at page 4 of the account——

2924. Page 16, I think?—Page 4 of the account—the note by the Accounting Officer on page 4.

2925. I had not noticed that?—"Owing to the formation of new departments and the transfer to them of some of the original functions of the War Office, the expenditur

ARMY APPROPRIATION ACCOUNT, 1916-17.

Sir *Hildred Carlile*—continued.

expenditure recorded in this account under certain Votes does not cover the complete year. Thus the main expenditure on mechanical transport vehicles as from the 1st September, 1916, that on railway rolling stock as from 13th November, 1916, and that on aeroplanes and their stores as from 1st March, 1917, are to be sought in the accounts of the Ministry of Munitions."

Mr. *Haslam.*

2926. Does that mean that the Ministry of Munitions carries goods and so forth for other Departments? That is really the meaning of it?—Yes, they have a tremendous traffic of their own between their different makers and factories, and they undertake all that traffic themselves; they are able at the same time, to avoid running light, to work in our traffic with it.

2927. In that case is there any account kept between the two Departments as regards the service?—So far inter-departmental adjustments on payments of that kind have been forbidden by the Treasury, but it is in contemplation on the part of the Ministry of Munitions that they will attempt to get payment for all these services as between the Departments in order to make their system of accounts water-tight.

2928. I do not know which is the best system, but I was enquiring into it as a matter which might be important?—I think as a matter of accounting it is a very important point. (Sir *Henry Gibson.*) That was explained by the accounting officer of the Ministry of Munitions when that Vote was taken.

Chairman.

2929. You will find that on the minutes. Turning to page 17, I observe, Sir Charles, you say, "The main charges for railway transport of troops and stores in this country are brought to account outside Army Votes." Does that mean in the Vote of Credit?—(Sir *Charles Harris.*) That is on the Vote of Credit under a general transaction with the Railway Executive Council.

Sir *Hildred Carlile.*

2930. Referring to sub-head M on page 16, is there no note explaining the period of the year dealt with in the figures given?—(Sir *Henry Gibson.*) There is a note. (Sir *Charles Harris.*) "The main expenditure for mechanical transport was transferred to the Ministry of Munitions as from 1st September, 1916." The notes are not put opposite the various items.

2931. I beg pardon; they are put under the letters, and it would be rather an improvement if they were——

Chairman.

2932. There is a rather bad deficiency on page 17 at the Camden Town Depôt of solid motor tyres, £6,000 odd?—That is a very unsatisfactory deficiency, but the circumstances were altogether exceptional. That depôt grew at a tremendous pace in the very early days of the war. Of course, we went into the war with practically no mechanical transport at all; we began immediately to commandeer everything we could lay hands on and to get everything possible made. The depôt was continually being removed to larger places, and the result of each removal was that the things got into such confusion that we could not take stock. Consequently we were never able to get a stock-taking until late in the year 1916, and by that time there was an accumulation of errors. I have looked at the papers very critically, because those are things which have commercial value, and I am assured that there is no reason to think that that represents a real loss to the public from peculation or anything of the sort. It is simply an account discrepancy.

Colonel Sir *Herbert Jessel.*

2933. Turning again to page 73, and dealing with paragraph 38, "Ration allowance to temporary R.A.M.C. officers serving at home," under Vote 7 I see the paragraph says, "By the issue of Army Order so and so the Army Council declared that all the troops serving in the United Kingdom and abroad, except India, were to be considered on Active Service"?—The

ARMY APPROPRIATION ACCOUNT, 1916-17.

Colonel Sir *Herbert Jessel*—continued.

troops at home are placed on Active Service by order, but that was only, of course, in a limited significance.

2934. That is just the point, because I hear that there are certain officers now who are not getting their rations. I do not mean in the War Office?—There are certain dentists, as mentioned in the paragraph, who are very closely akin to doctors, and the dentists have not got rations, whereas the doctors, through perhaps an error of judgment at the beginning of the war, were granted rations.

2935. Forgive me for contradicting you, but the dentists have got their rations now that they live in mess; they have been allowed that by an Order, and I saw it, referring to the dentists?—I was not aware of that, and as far as the official records go we asked the Treasury to agree that dentists should have their rations, and the Treasury refused to agree, and there is no order that they should have them.

2936. I do not want to deprive the dentists of them, but I think if the doctors have them the dentists ought to have them too. While the dentists are living in the mess, however, they have been sanctioned by an Order?—By a local Order? It is not by War Office Order.

2937. I do not want them to be deprived of them because I have given you this information, but I did not mean them. I thought that question had been settled that while they were belonging to a mess they should get their rations. That is the Order which has been issued?—It may be that they are practically living as guests on other officers' rations, but there is no power to them to draw rations; that is to say, there is no full-dress authority as far as I am aware. I will make a discreet inquiry without in any way abusing your confidence, if I may put it in that way.*

2938. That is not the point I was going to raise; there are certain other officers in the Army outside the War Office who cannot get rations; is there any reason why there should be a differentiation?—Can you tell me to what particular class of officers you refer?

2939. For instance, the officers on consolidated pay, like the Deputy Directors of Remounts; they do not get them?—There are certain people who are serving upon special contracts where it has been stipulated from the beginning that they would not draw rations. No doubt now the number of officers who are allowed to draw rations is so large, those contracts look a little anomalous, but still they are contracts which were definitely accepted when the men took service.

2940. I was wondering whether they should not be reconsidered, and this question of the doctors and the dentists, who are serving side by side—one class getting rations and the other not—is very anomalous.

Sir *Charles Henry.*

2941. I would like to ask Sir Charles, on that question of the rations, do you consider that the officers who are serving at home should get the same rations as the officers who are on active service in France?—No; the scale of rations is now different, but at the beginning of the war it was the same.

2942. I was told in the House that a revision was to take place; has that taken place?—Yes; the scale of rations has been quite recently revised.

2943. Of officers and men?—For both officers and men.

2944. Can you tell me what quantity of meat the men on home service get per day?—The men doing heavy work get 10 ounces, and the other men 8 ounces.†

2945. And the officers about the same?—The officers the same.

ARMY CANTEENS.

Chairman.

2946. (To Mr. *Barstow.*) With reference to paragraph 39, Mr. Barstow, the Treasury seem to have provided a very large sum of money at interest for the purposes of the Navy and Army Canteen Board?—The Treasury has made a large issue—yes.

2947. Are the Treasury getting the interest regularly paid?—I have not heard that they are not—that is all I can say, and I should imagine they must be.

2948. That does not come under you, Sir Charles?—(Sir

* *Note by the Witness.*—On enquiry, I find that authority has been given by the War Office for certain dentists living in Army messes to draw rations *on payment.*

† *See* correction of this statement at Q. 3053 18th June.

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

—(Sir *Charles Harris.*) No; by arrangement with the Treasury I am not Accounting Officer for these transactions at all.

2949. Do they come under you, Sir Henry?—(Sir *Henry Gibson.*) I have not seen any of them.

2950. You do not audit them at all?—No, but I should see any receipts which are given. I think the Committee will have to deal with them on the Vote of Credit.

Mr. *Leif Jones.*

2951. Shall we defer it to that time? Why do you not audit them, Sir Henry?—There is a special independent audit by a firm approved by the Army Council. They are not charges against Public Votes. It is true there is an original loan out of voted money, but expenditure out of moneys provided by loan are not necessarily audited by me.

2952. That is because they are really not public money?—That is so.

Chairman.

2953. The only public money is the Treasury loan, which does not come under you, and you will see that the interest is paid?—Yes, the interest and the capital.

Mr. *Leif Jones.*

2954. Who made all these arrangements for this body? It was not the War Office, Sir Charles?—(Sir *Charles Harris.*) It grew up under the War Office management; the gradual development of the Canteen Control Board into this Navy and Army Canteen Board, which is a separate legal corporation, took place under the War Office and with Treasury consent.

2955. You say a separate legal corporation; is that constituted by Act of Parliament—Not by Act of Parliament, but under the Companies Acts, by the advice of the Treasury Solicitor and the Board of Trade.

2956. Mr. Barstow, under what powers are the Treasury acting when they set up an independent body of this kind and advance public money to them?—(Mr. *Barstow.*) The Treasury advanced money out of the Vote of Credit to this body on the authority of the Vote of Parliament to the Treasury of the Vote of Credit.

2957. It is expenditure under the Vote of Credit, is it?—It is expenditure under the Vote of Credit, it is an advance of money—practically of working capital, or equivalent to a guarantee of the capital to this Board, which the Treasury advanced from the Vote of Credit.

2958. What would happen supposing this body did its work badly, and there was a great deal of money lost? Would the Treasury be repaid this advance?—The Treasury have to take the risk of a loss, supposing there was a loss.

2959. Were you consulted at all as to the constitution of this body and the method in which it was to be worked?—Yes; the War Office communicated with the Treasury and said they proposed to set up a Board, eliminating the contractor element in canteen work. It was called the Army Canteen Board, and subsequently the Navy joined it, and it is now known as the Navy and Army Canteen Board.

2960. Are the Admiralty and the War Office jointly responsible for its operations, is that it?—Jointly responsible as to general policy, but not as to the trading operations, as I understand. It is a body which does trading operations.

2961. Assuming it was going wrong, who would pull it up; what is the overruling authority?—The Board itself has representatives upon it of the War Office and the Admiralty. (Sir *Charles Harris.*) I think the War Office and Admiralty and now the Air Board accept ministerial responsibility for the proceedings of that body.

Mr. *Haslam.*

2962. Who audits the accounts of that body?—The accounts are audited by professional accountants.

2963. Not nominated by the Government?—The accounts do not come under me or the Comptroller and Auditor-General.

ARMY APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

2964. How do you keep yourself informed of the operations of the Board?—The Board consists largely of officers of the War Office and Admiralty; they are therefore kept informed by live touch in that way, and no doubt when the accounts of the year have been completed and reported upon by the auditors the report of the auditors will come to the notice of the Army Council.

2965. But you are only jointly responsible with the Admiralty and the Air Board, I understand?—Yes.

2966. Is any general report published giving the balance-sheet of the operations?—I am not aware whether there is any intention of publishing, but the accounts will be drawn up and will be forwarded to the Admiralty and the War Office with the report.

2967. Up to now have the operations been profitable?—Certainly.

Mr. *Haslam.*

2968. Is it supposed to be a more profitable way for the country than having private contractors dealing with it?—I think undoubtedly the soldier gets very much better value for his money.

Mr. *Leif Jones.*

2969 You will receive a report from this body at the end of each year?—The Army Council will receive such a report, but I should like to make it quite clear that my Department has officially nothing whatever to do with this organisation any longer. So long as the Treasury had advanced moneys for working capital, to be repaid, it was my function to see that the Treasury got its money back with interest. It has now had all its money back with interest so far as its advances in that form went, and I have no longer any official concern with the matter.

2970. I do not know quite who has. You say that three bodies—the Air Ministry, the War Office, and Admiralty—jointly accept Ministerial responsibility for the actions of that body?—That is so.

2971. Does the Treasury know anything about the working of this body, Mr. Barstow, or is your interest in it confined to seeing that you get your money back?—(Mr. *Barstow.*) That is all.

2972, Who can tell me? Will any report of its working be published or ought I to ask for this in Parliament?—(Sir *Charles Harris.*) I think on the question of the publication of the accounts probably questions of policy will arise—that is to say as to their publication at the present moment. When the war is over there will probably be no objection to publication.

2973. Are the accounts being kept in the meantime?—Accounts are undoubtedly being kept, and, so far as I know, are being audited, but they do not come into my official knowledge at all.

Mr. *Mackinnon Wood.*

2974. That practically means that the War Office has really no knowledge of them?—The War Office has, but not through its Finance Department. For instance, the Parliamentary Financial Secretary to the War Office is one of the members of the Army Council who takes an active share in dealing with these questions, but he does that in his Ministerial capacity, and not upon my advice as head of the Finance Department of the War Office.

2975. Therefore you do not investigate the accounts, as a matter of fact?—No, I do not see them at all.

Sir *Charles Henry.*

2976. Supposing this body makes a loss, who really bears the loss? Are they a trading company?—As they stand at present they are a trading company in legal form, but with no proprietary interest in the proceeds of their trading. I think Mr. Barstow would agree that if the thing were a failure and wound up with a loss the Treasury would have to come in as having guaranteed. (Mr. *Barstow.*) Yes.

2977. Supposing they made a large profit, to whom would the large profit go?—(Sir *Charles Harris.*) If they make a large profit that profit has under their articles of association to be surrendered to the Army Council

ARMY APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—*continued.*

Council. The question of how and in what legal form the Army Council is going to hold that property and ultimately dispose of it and on what objects, is under consideration by the Army Council at the present time.

Chairman.

2978. You say the Army Council, and, I suppose, the Air Board and Admiralty, will have their share of it?—Quite.

Sir *Charles Henry.*

2979. Is there any difference between the Expeditionary Force canteens and the home canteens?—They are quite separate organisations.

2980. This has nothing to do with the home canteens at all?—No; the personnel of the directorate is not altogether separate, but they are quite separate organisations.

2981. Will separate accounts be rendered as to the home canteen, as distinguished from the Expeditionary Force canteens?—I should say, undoubtedly, yes, but I am not able to speak officially.

2982. If they have separate accounts, there is no reason why these accounts should not be published as to the Home Force canteens?—Not on that head. (Mr. *Barstow.*) I should like to say that the questions I have been answering I understood to relate to the Navy and Army Canteen Boards. The body to whom three millions has been advanced is not the Expeditionary Force canteens, but the Navy and Army Canteen Board. (Sir *Charles Harris.*) That is so.

Mr. *Mackinnon Wood.*

2983. Is that a home body?—Yes, that is a home body.

Sir *Charles Henry.*

2984. If we can get information with regard to the home canteen there is no reason why we should not have information as to how their operations are getting on?—Not under the particular head of objection I indicated. I am not able to say on behalf of the War Office, and I am anxious to abstain from saying anything which would lead you to think that I had promised that the report and accounts would be published

2985. You are not in a position to speak on the subject?—No.

2986. Could you say which official from the War Office we could call before this Committee as to the working result of the home part of the canteen work of the War Office?—I think there is no reason why this Committee should not call a representative of the canteen management—for instance, Sir George May, who is at the head of it—if the Committee holds that these are public accounts which come before the Committee. On that point I express no opinion.

Mr. *Haslam.*

2987. May I ask this: Is the Canteen Board run for private profit in any way or shape?—There is no private interest whatever on the part of any of the directors of the canteens in any of the profits made. Some of them draw fixed salaries, but there is no interest in the profits.

2988. Are they appointed by the Treasury or by the War Office?—They were appointed by the War Office.

Mr. *Leif Jones.*

2989. You advanced this year £380,000 under a vote to the Expeditionary Force canteens. What I do not quite understand is what it is doing there if the War Office have nothing to do with it, and it is some other body which is answerable?—The War Office—that is to say, the Army Council—has to do with it; it is ministerially and in policy and so on fully responsible; only the Finance Department of the War Office is not responsible for its accounts and finance because they are not public moneys.

2990. You say you are ministerially responsible, and not financially responsible, as I understand it?—The Secretary of State is ministerially responsible, but I am not financially responsible.

ARMY APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones—continued.*

2991. How can it be so?—When I say not financially responsible, I mean that the accounts and financial transactions of this body are not public accounts; they are not in any way handled by me and do not as public accounts come before this committee.

2992. And yet, if this body in its trading operations make a loss you say they will go to the Treasury to refund that loss?—I think it is agreed that ultimately they are, so to speak, trading on the credit of the Treasury.

2993. The Treasury returns this expenditure under various heads. Would not a portion of it be under the War Office?—The Treasury, in so far as it has had cash transactions with these people, will, as I understand it, present an account under the Vote of Credit. (Mr. *Barstow.*) I should like to intervene to point out that the Treasury has not guaranteed a loss by the Navy and Army Canteen Board. What it has done is to advance £3,000,000; it has made a loan, and technically, no doubt—indeed, not technically, but actually—the Treasury will demand and expect repayment of the whole of that £3,000,000 with interest. There should be no difficulty in that sum being repaid. As I understand the whole of it is not necessarily advanced. The money has been put into an account in the Pay Office in the name of the Navy and Army Canteen Board, and they bank with a private bank, which is more suitable for this sort of transaction, and the interest is paid on the difference between the amount of the £3,000,000 and the minimum balance on the Pay Office account of each week during the quarter. The Treasury at first, I may say, gave a guarantee, and subsequently disliking that, when the period of the guarantee ran out, said they preferred to make a clear advance from the Vote of Credit in order to make their position clear.

2994. I am assuming that they wind up at some time with a loss; on whom is that loss going to fall?—The Treasury is in the position of an unsecured creditor.

2995. Are you wholly unsecured? Would you not have a right of action against these gentlemen composing this Board, for payment of the unpaid interest, for instance?—Against the individual members?

2996. Yes. Are they individually liable or are the Admiralty, the Air Board and the War Office jointly liable?—The Board is constituted as a corporate body, which, I take it, has technically the liabilities which a corporate body has to its creditors. You are asking me a question which involves some legal knowledge, which I do not claim to possess.

Mr. *Haslam.*

2997. I suppose it is a kind of monopoly, and they can advance the prices in case of a likely loss?—There ought to be on the home canteens, far from a loss, substantial profits, which would go towards paying off the loan they have had to borrow for their trading purposes.

2998. They have their remedy?—Yes.

Chairman.

2999. Mr. Barstow, may I ask a further question: Supposing the Home Canteen Board made a loss and the Treasury had to pay up that loss, would you charge that loss against the Navy, the Army and the Air Board Votes or would you charge it to your own Vote?—The loss would appear, I take it, as a failure to recover a loan out of the Vote of Credit.

3000. But supposing the Vote of Credit came to an end; supposing the Board goes on and your £3,000,000 disappears, and that Vote of Credit is wound up?—The Accounting Officer of the Vote of Credit has to account for the £3,000,000 advanced; he would be unable to do so, and the sum would have to be written off as an irrecoverable loss.

3001. Against the Vote of Credit?—Against the Vote of Credit.

3002. But the Accounting Officer of the Vote of Credit does account for the £3,000,000, and the £3,000,000 is continued by the Treasury to the Canteen

13 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., and Sir C. HARRIS, K.C.B. [*Continued.*

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

Board, although the state of war has passed away and the Vote of Credit is done away with. The Home Canteen Board would go on. I am looking forward to peace time, when there would be no Vote of Credit. The £3,000,000 is advanced to them, and supposing there is a loss when there is no Vote of Credit and the Treasury have to make good that loss, where will that loss appear—on the Treasury Vote, the Army Vote, the Navy Vote, or the Air Board Vote, or on all four of them, or three of them?—I should say some Vote for which the Treasury will account, speaking without the book.

3003. Some vote which the Treasury would account for, and therefore it would come under the Comptroller and Auditor-General?—Certainly.

3004. And he would, therefore, be entitled to inquire into all the accounts, and see how the loss arose?—(Sir *Henry Gibson.*) I take it that this £3,000,000 has at the present moment been paid, and charged against the Vote of Credit. Therefore, the loss cannot exceed this £3,000,000, which is the total amount which has been paid out of the Vote of Credit.

Mr. *Leif Jones.*

3005. What is to prevent another £3,000,000 being paid to-morrow?—That is the present maximum outstanding amount.

Chairman.

3006. I am afraid I do not make myself very clear because I was dealing with the period when the vote of credit has disappeared. Supposing the £3,000,000 is swallowed up and another £300,000 beyond, and supposing that is charged to some one vote for which the Treasury is responsible, would not the whole of the circumstances under which that £3,000,000 odd was lost and charged against some Treasury vote come under you? You would then have a right to inquire into that loss?—(Mr. *Barstow.*) Interest upon this £3,000,000, which has now been advanced as a loan, is to be payable by the Board to the Treasury within one month of 31st of March, 30th June, 30th September, and 31st December at the rate of 4½ per cent. per annum calculated weekly on the difference between the £3,000,000 and the minimum balance on the Pay Office Accounts in each week during the quarter, and, unless other arrangements are approved in the meantime by their Lordships, the Canteen Board will repay to the Treasury on the 31st December next the outstanding balance for the sum advanced to them by the Treasury.

3006a. The whole amount advanced is to be repaid by the 31st December next, unless that arrangement has been modified?—What I have just read is from the Treasury Letter of the 1st January, 1918, addressed to the War Office. If those conditions are not fulfilled I should have to get some explanation.

3007. In fact, we must wait until the 31st December next to see whether there is a loss or not?—Certainly.

Mr. *Leif Jones.*

3008. Who fixed the figure of £3,000,000, Mr. Barstow?—(Mr. *Barstow.*) That was the final figure asked for by the Navy and Army Canteen Board.

3009. You have a new Ministry now, the Air Ministry; supposing they ask for another £2,000,000 for more canteens, would you give it?—We should naturally inquire why they wanted it, and find out the circumstances. These advances, as the right honourable gentleman will see, are for working capital for this large trading concern. It requires a very large capital, as it does an enormous business, and in order to get that capital it can practically only turn to the Treasury for an advance. Naturally, if some new body came forward and asked also for a loan the merits of that loan would be carefully canvassed in the Treasury before any authority was given to advance it.

Mr. *McKinnon Wood.*

3010. Have you advanced the whole £3,000,000?—The whole £3,000,000 has been paid out from the Vote of Credit to a Public Account at the Pay Office in the name of the Navy and Army Canteen Board.

ARMY APPROPRIATION ACCOUNT, 1916-17.

Mr. *McKinnon Wood*—continued.

3011. They have the control of the £3,000,000?—They have the control of that £3,000,000; they draw upon that for keeping their bankers in funds, as I understand.

3012. Have they repaid none of it?—I am afraid I do not know.

3013. They have no other capital than that £3,000,000?—I think not.

3014. And they have no interest in the profits or anything else?—No interest.

Sir *Charles Henry.*

3015. Is that £3,000,000 only for the working of the Expeditionary Force Canteen?—No; it is for the Navy and Army Canteen Board.

3016. Both at home and abroad?—The Navy and Army Canteen Board does run some canteens abroad. (Sir *Charles Harris.*) Home and Colonial, but not in theatres of war—that is to say, in Gibraltar and Malta and so on, but not in France and Mesopotamia.

3017. Are there two Boards?—The Expeditionary Force Canteens is a separate organisation.

3018. It is a separate organisation altogether. The £3,000,000 has not been advanced to the Expeditionary Force Canteens; it has been advanced to the Navy and Army Canteen Board?—That is so.

Mr. *Leif Jones.*] The Expeditionary Force Canteens have had £380,000 from the War Office.

Mr. *McKinnon Wood.*

3019. Are they under the War Office?—They are under the War Office, and as long as they were in debt to the Treasury I was responsible for seeing that they repaid, but the whole of the sum they borrowed has been repaid to the Treasury with interest.

Sir *Charles Henry.*] If that is the case and the Home Service Canteens have had this £3,000,000, ought not the account to be further investigated, seeing that this is or may be a charge on the Public Funds?

Chairman.

3020. If it is it comes under our purview?—(Sir *Henry Gibson.*) This paragraph of mine was put in simply to clear up the position so as to show the changes which have taken place. This sum was issued in December last, and it will appear as a charge in the Vote of Credit Account for 1917-18, when the case will be dealt with by the Accounting Officer of the Vote of Credit.

Sir *Hildred Carlile.*

3021. There is just one more question I wanted to ask: When the Canteen Board was set up did they take over the work of the Nicholson Committee?—(Sir *Charles Harris.*) It took over and replaced the Nicholson Committee, but the Nicholson Committee was only supervisory. It also took over the work of the actual canteen contractors.

3022. Were these assets and liabilities which were taken over at the time the Canteen Board replaced the Nicholson Committee?—The Nicholson Committee had no assets and liabilities; it was only a controlling organisation.

Chairman.

3023. Have you anything to say with regard to paragraph 40, "Canteen profits on cash allowance for rations"?—Paragraph 40 is a matter that is a little involved, I think, and if you will allow me, I will read to the Committee the substance of a letter which was written to the Treasury placing the whole matter before them, which will place the Committee in full possession of the circumstances. "I am commanded by the Army Council to refer to the discussion at the Public Accounts Committee on 15th May last on the subject of the surrender to the public, in accordance with Lord Kitchener's decision of January, 1916, of the profit made by Army Canteens on the purchase of groceries, etc., by units of the Army out of the commuted daily allowance (5½d.) issued in lieu of certain portions of the full field service ration. As stated in paragraph

13 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. G. BARSTOW, C.B., and Sir C. HARRIS, K.C.B. [*Continued.*

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

paragraph 40 of the Report of the Comptroller and Auditor-General on the Army Account of 1916-17, after a first payment to the public of £40,000, representing estimated profits for March quarter, 1917, the surrender of these profits to the public has been suspended pending further consideration of the subject by the Army Council. It should be explained that in the early part of the war, while the canteens were in the hands of contractors, the latter paid over a rebate of 10 per cent. on the gross takings of the canteen, of which 8 per cent. went to the commanding officer of the unit, and 2 per cent. to a Central Fund in the hands of the Board of Control under the War Office" (that was the Nicholson Committee). "The initial difficulty felt in applying the decision of January, 1916, was that though the rebate was paid uniformly on all takings, the profit earned by the Contractors on the purchases out of the 5½d. was known to be at a much lower rate than that on those made by the individual soldier out of his own money" (that is to say, the Dry Canteen was less profitable than the Wet Canteen, speaking broadly). "When the contractors were replaced by the Army Canteen Committee (subsequently the Navy and Army Canteen Board), before effect had been given to the decision, the position changed. The business being no longer in private hands, the actual profit made upon the two parts of it admitted of being ascertained or closely estimated, and the claim of the public was not to 10 per cent. of the takings out of the 5½d., but to whatever profit might be made on that part of the business. The arrangement for 'rebate' to the regimental funds of the unit continued, 8 per cent. going direct to the unit and 2 per cent. being paid into the Central Regimental Institutes Fund, out of which the Army Council from time to time makes grants in aid of objects affecting the welfare of the Army as a whole rather than of individual units. When, in April, 1917, it was decided that an estimated sum on account of the profits for the March quarter of that year should be surrendered to the Exchequer, it came to notice that the Regimental Funds of units, in default of any instructions to the contrary, had continued to receive their 8 per cent. on the whole takings, and to avoid any question of a refund by units it was decided that the payment should be made out of the Central Fund, and it was so made" (that is the £40,000). "About the same time attention was drawn to the effect upon the regimental messing accounts of the rising prices of the articles which were bought out of the 5½d., and it was suggested that, in order that the troops might continue to be adequately fed, authority should be sought to credit the profits in question to the Messing (instead of the Regimental) Funds of units. It was further agreed that pending discussion of this question, no orders should be issued depriving units of their accustomed rebate on these purchases, but that the next quarter's payment to the Exchequer should also comes from the Central Fund. The trading figures of the Navy and Army Canteen Board for the half-year, January to June, became available in August, and it was ascertained that, after allowing for the £40,000 already paid, a sum of £57,000 remained due to the Exchequer for that period. But before this sum had been paid over, changes in the personnel of the War Office and in that of the Navy and Army Canteen Board had led to a re-examination of the whole situation and a re-opening of the main question whether these profits should be refunded to the public. It was urged that the 5½d. had come to be regarded as the war time equivalent of the 3d. messing allowance drawn by the soldier in peace, in connection with which no claim on the part of the public arises; that to deprive the regimental funds of these profits would in many instances take away practically the sole source of income of these funds, which play a most valuable part in the internal economy of units; and that the issue of any such order at this late stage would be sure to cause intense dissatisfaction. It was further urged, from the point of view of the trading concern, that owing to the increasing restrictions on the purchase and sale of food articles arising from

ARMY APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

the action of the Food Controller and to other causes, a serious diminution of trading profits in the future was threatened, which might soon render it impossible to pay the customary 10 per cent. rebate, and even lead to a trading loss; and that it might even be necessary to discontinue the payment of 2 per cent. to the Central Fund, this being preferable to any reduction of the 8 per cent. paid to units. Moreover, it was represented that the Central Fund was created and held in trust for the benefit of the soldier, that grants out of that fund were notified to the Army as made, and that to continue to return large sums to the public would create a most unfavourable impression. The Army Council on reconsideration of the subject, feel that, looking at the question as a whole, there are preponderating reasons for no longer maintaining the decision of January, 1916. Though there is a technical distinction between the 3d. messing allowance credited to the individual soldier's pay account in peace and the 5½d. drawn by his commanding officer for the provision of food in war, it is too fine a distinction to commend itself to the soldier, while the time that has elapsed since the decision was taken without any notification having been made to the troops, who have all along enjoyed these rebates, would give any change in this respect a most undesirable prominence. In view of this and the other considerations above set out, the Council trust that they may receive authority to make no further payment on this account to the credit of the public." That is a statement of the case that is before the Treasury.

Sir *Hildred Carlile.*

3024. That means that the 8 per cent. to the Regimental Fund goes on?—The 8 per cent. goes on; that is a first charge upon profits, and the two per cent. is a second charge, and the suggestion is that the claim of the Exchequer drops out entirely.

3025. That means that the 8 per cent. is the amount contributed as extra profit by the soldier himself, does it not? The soldier pays it, and gets so much less in the way of value or quantity of food?—It is not clear that the 8 per cent. comes entirely from the soldier's own money; part of it may be held to come from the 5½d. which is technically not the soldier's money at all. That is the whole root of the trouble.

3026. In what sense is the 5½d. not the soldier's own money? Is not he entitled to the quantity of food represented by the sum of 5½d.?—No; the soldier is entitled to a sufficient quantity of food, adequate messing, but the arrangement by which the Commanding Officer is given 5½d. for each man per day to buy that food as the agent of the War Office does not give the soldier any property in the 5½d. The messing allowance in peace is a grant to the individual soldier; he hands it over to his Commanding Officer, and the Commanding Officer spends it on his behalf. The distinction is a technical one, but it is a very real distinction nevertheless.

3027. It is so fine that if we could have the concentrated expression of opinion of the soldiers, I think we should find that they thought they contributed the 8 per cent., and in my opinion they would have very good ground for thinking so?—That would be so, no doubt, in the case of the old pattern soldier, but there are lawyers in the Army in these days.

Sir *Charles Henry.*

3028. Returning to the Vote on page 18, I desire to ask a question on the net cost of provisions, Sub-head A. do the soldiers engaged in the War Office get the same rations as the others?—Soldiers serving in the War Office—that is, soldiers in the limited sense—do get the ration; officers in the War Office do not.

3029. They get a payment instead?—No; they get their consolidated salaries, which are held to cover all allowances.

3030. As regards those officers who get the consolidated salaries, do they get extra ration cards under the rationing system?—I think the officer drawing consolidated pay is in the same positon as you or I.

3031. Do you give them a ration card or certificate that

ARMY APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry—continued.*

that they are doing heavy work and therefore are entitled to extra rations?—The soldier who is drawing ration allowance buys his food in a shop in the ordinary way; he gets two extra coupons a week because he is a soldier, but, speaking under correction (and I will confirm this next time), I think the officer drawing consolidated pay in the War Office is in just the same position as a civilian.

3032. He does not get extra coupons for heavy work?—I think not.

Mr. *Leif Jones.*

3033. On this sub-head A, "Cost of Provisions 106 million pounds," would it be possible, without much trouble, to let me have the main heads of that expenditure subdivided into meat, sugar, and the other different heads?—I am afraid it would be impossible to subdivide the expenditure at all easily. It would be possible to get perhaps from the Contracts Records how many tons of beef and how many tons of flour the Army had drawn, but to subdivide the expenditure I am afraid would be troublesome.

3034. This sub-head does not give much information to one?—No; it is a large sum of money under one head, but I do not know that the information would be of very much importance.

3035. I think if you had two years side by side it would be rather interesting to compare whether there had been any change in the diet; for instance, whether there had been more meat and less bread?—That would perhaps be more easily got at from the point of view of quantities—not through the money. We get our beef prices from the Board of Trade, and the prices of beef vary with every shipment.

3036. Could you do it in quantities without much trouble? I do not want to put any additional trouble on you?—I will inquire whether I can get approximate statistics, but there is always another way of looking at it; it is all rationed, and I could give you the changes in the individual man's ration from the beginning of the war quite easily.

ARMY APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones—continued.*

3037. That would serve my purpose, I think?—I will produce a statement of the ration at different times.

Sir *Charles Henry.*

3038. With regard to sub-head P.W., "Supplies for Enemy Prisoners of War"; does that mean all supplies, food and everything?—That means only such articles as are bought specifically for prisoners of war. Where the prisoner of war gets his bread, his beef and his bacon out of store in the ordinary way, it is not specifically charged; it is charged under the general head of "Provisions."

3039. Would this sub-head P.W. really stand alone?—It comprises such small local purchases as are specially made for prisoner-of-war camps.

Chairman.

3040. I understand, Sir Charles, you want leave from this Committee to destroy certain papers referring to regimental equipment, clothing, fuel and light, forage and animal accounts up to the 31st March, 1916; engineer store accounts other than those of the main depôts up to the 31st March, 1915; and pay and mess books of the units up to the 31st March, 1917, as soon as the soldiers concerned have acknowledged the correctness of their balances to a later date?—It would be a great relief to us to be able to destroy them.

3041. Sir Henry, you do not see any reason why they should not be destroyed?—(Sir *Henry Gibson.*) No; I have gone into the matter with Sir Charles Harris, and we see no objection.

Sir *Charles Henry.*

3042. They will be pulped, I presume?—(Sir *Charles Harris.*) Yes; it is a good time for utilising all the old paper there may be about.

Chairman.] You may destroy those papers, Sir Charles (*handing the signed authority to Sir Charles Harris*).

(*The Witnesses withdrew.*)

Tuesday, 18*th June* 1918.

MEMBERS PRESENT:

Mr. Blair.	Sir Charles Henry.
Sir Henry Craik.	Mr. Leif Jones.
Mr. Haslam.	Sir Robert Williams.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

MINISTRY OF MUNITIONS (NATIONAL AND ROYAL AIRCRAFT FACTORIES) ANNUAL ACCOUNTS, 1916-1917.

Sir GILBERT GARNSEY, K.B.E., called in; and Examined.

Sir *Gilbert Garnsey.*] I must apologise to the Committee for troubling them again, but I find, on reading my evidence given before the last meeting in connection with the National Factories Accounts, I am not quite correct in what I say concerning this error of £3,000,000, which was reported upon by the Comptroller and Auditor General.

Chairman.

3043. What is the number of the question?—It starts from 2726 and goes to 2728. That evidence shows that I thought this was a mistake which affected the figure of stock, the sum in the balance-sheet, but on careful enquiry into this, I find that is really not the case at all. It does not affect the stock figure, and it is really not so serious even as I put to the Committee at the last meeting. What really happened was this: we have stock books in quantity kept at the factory, and at the end of the year when the stock came to be taken they took out these quantities and properly priced them, and the correct figure appears in the balance-sheet. On the other hand they found they had not received invoices from the Ministry, so they decided to extract from their stock book the stores received from the Ministry and to price them at their own standard prices, which happened to be the same prices which we use. Unfortunately, the clerk who took out these stores did not know the difference between the various articles, and he lumped several lots together and

Chairman—continued.

MINISTRY OF MUNITIONS (NATIONAL AND ROYAL AIRCRAFT FACTORIES) ANNUAL ACCOUNTS, 1916-17.

Chairman—continued.

and priced them at one price, when in point of fact, they should have been priced at different prices. He in consequence increased the liability of the Ministry to the extent of £3,000,000; that is to say, he assumed, quite properly, that they sent him £3,000,000 worth more materials than the factory had in fact produced. The effect of that was this, that the Production Account becomes debited with £3,000,000 more, and it shows that the Factory has produced £3,000,000 more of material or finished articles than they have in fact done. The final effect upon the balance-sheet is nil, because there is one figure credited to the Ministry of £3,000,000 odd and a figure debited to the Ministry of £3,000,000 odd, both in excess, but the final balance is not altered at all. I would like to show the Committee the actual balance-sheet, which shows how the errors have been adjusted, and they will see that the balance-sheet is not affected in the slightest.

3044. It really arose through the clerical mistakes of an inefficient and unpractised staff?—That is so.

3045. And the balance-sheet is not altered?—What I wish to impress on the Committee is that there is no loss of money here. It is merely a book-keeping entry.

Sir *Charles Henry.*

3046. I would like to ask Sir Henry Gibson if he agrees now with this statement?—(Sir *Henry Gibson.*) I think so. As I said before, I drew attention to this as being a very large and important discrepancy, and a firm of outside chartered accountants who were paid to audit these accounts and whose audit was at that time the only audit applied to these accounts, had failed to detect this error. (Sir *Gilbert Garnsey.*) I think I can explain that in this way: I am told the accountants did in fact check this statement showing the liability of the Ministry, but unfortunately they did not know the difference between the various classes of stores which had been lumped together, so instead of having them shown as distinct classes of stores at different prices, they were all lumped together at one price, and they themselves did not know the difference until their attention was drawn to it. The Financial Secretary also asked me to mention paragraph 7, which I do not think was dealt with by the Committee on the last occasion. I see Sir Henry points out that "complete reconciliation of the cost accounts with the financial books appears to have been impossible." I am not sure. I daresay that was so at that date, but I am informed a complete reconciliation is always possible now, and that the Controller of Factory Audit and Costs would be very glad indeed to show how the differences are made up. At all events, that is so to-day. It probably was not so at the time Sir Henry was reporting upon.

MINISTRY OF MUNITIONS (NATIONAL AND ROYAL AIRCRAFT FACTORIES) ANNUAL ACCOUNTS, 1916-17.

Sir *Charles Henry*—continued.

Mr. *Leif Jones.*

3047. That is a very important statement. Do you know that, Sir Henry, that they say they can reconcile the final cost accounts? Have they done it?—Yes, it is in process of being done.

3048. And the reconciliation will be submitted to the Committee?—As at this year?

3049. Yes?—As at 31st March, 1917, that has not been done; it could be done, no doubt, if it was insisted upon.

3050. Only you think it is not worth while?—That is so.

3051. At what date are you doing it?—At the present time as we go along.

Sir *Charles Henry.*

3052. That only refers to the Ordnance Factories?—That refers to the National Factories.

Sir *Gilbert Garnsey withdrew.*

ARMY APPROPRIATION ACCOUNT, 1916-17.

SIR CHARLES HARRIS, K.C.B., called in; and Examined.

Sir *Charles Harris.*] Before the examination begins I want to hand in a statement I promised last time, of the variations which have taken place in the rations issued to the soldier. *That* is a statement of variations in the home ration, and the Committee will see there have been a good many alterations (*handing in the statement*). [*Vide Appendix No. 18.*] *That* is the statement of the corresponding alterations in the ration in France (*handing in the same*). [*Vide Appendix No. 18.*] I should say that my evidence on two points of detail in connection with rations was not quite up to date. I said that the soldier was now receiving 8 ounces of meat, and if in hard work 10 ounces. That was altered on the 1st May last in this way, that all soldiers at home, except growing lads, now receive 8 ounces. I also said I was under the impression that officers in the War Office on consolidated pay drew the ordinary civilian rations. I find that they also get the two extra coupons which are given to soldiers on ration allowance.

Chairman.

3053. Although they are doing sedentary work?—Yes; it has not been found practicable so far in the Army as a whole to draw a distinction between the sedentary and the non-sedentary.

Sir *Charles Henry.*

3054. There is no practical reason why an officer in the War Office should draw increased rations to those a civilian in the War Office does?—No; but the difficulty is that just over the road, so to speak, there are officers of the London District and Eastern Command, and they draw rations, and it is simply a question of difficulty in drawing the line between those and other officers.

Chairman.

3055. Why do the other officers get them?—The whole Army at home, leaving the War Office aside, is under war conditions and on active service, and active service includes the issue of rations to officers.

3056. Even although they are on sedentary work?—Yes; it has not been found practicable to make a distinction.

Sir *Henry Craik.*

3057. I understand you to say that those for whose benefit it is issued are those on active service, although they are on service at home, and that you cannot cut out of the number those who happen to be employed in the War Office?—The whole Army at home is on active service nominally, and therefore entitled to military rations in some form.

3058. And you do not find it practicable to make a distinction between those who are on active service, although they are employed only on sedentary work in the War Office?—That is the position; the Army Council has not seen its way to do that yet, but I understand that Lord Rhondda has not yet said his last word upon that subject.

Sir *Charles Henry.*

3059. You refer to the officers who do not get actual rations, but get consolidated pay?—Quite so.

3060. They get two extra ration tickets?—Yes.

Sir *Henry Craik.*

3061. Of course, the officers at home on leave get their rations; there is no intention of cutting them out?—They get full rations.

3062. This

ARMY APPROPRIATION ACCOUNT, 1916–17.

Chairman.

3062. This applies not only to those who are in the War Office, but it applies to all officers throughout the country who are employed on purely sedentary work?—Officers generally throughout the country outside the War Office get rations in kind; the War Office officer does not get rations in kind, but he is allowed the extra coupons.

Sir *Charles Henry.*

3063. There are some officers engaged in the Ministry of Munitions and some of the other Government Departments: what is their position? Do they get the extra coupons as well?—If serving as officers of the Army on full pay, yes.

ON VOTE 8.

ORDNANCE DEPARTMENT ESTABLISHMENTS AND GENERAL STORES.

Sir *Charles Henry* (to Sir *Charles Harris*).

3064. Turning to the Vote itself, on page 21 I observe there is a considerable decrease in the amount for Equipment Stores under sub-head D as compared with previous years, and there is an increase in the Miscellaneous Stores under sub-head E?—Yes. The reason why there is a decrease in the Equipment Stores is that they are things of which very large reserves are held, and at the time we were building up the strength of the Army very large supplies had to be provided as Capital, so to speak. We are now living more on Maintenance. That does not apply with equal force to the Miscellaneous Stores.

3065. Under the heading of Miscellaneous Stores, do you include repairs, or where do they come in?—Generally speaking, where repairs are done by contract the charge for repairs is put to the same ledger head of service as the charge for the Stores themselves. To a large extent, repairs are done by our own labour, either by military or civil labour, and then the charge in the accounts appears as Wages and Materials.

3066. Recently there has been some discussion in Parliament about taking possession of a big area of land near Slough. That is for repairing work, is it not?—The repairing work there would probably be done by enlisted men, and therefore the charge for labour would appear under the pay of the Army, and the rations, and so on: it would not be brought against the articles repaired, under our system of accounts.

3067. Why is that work being done by the Army and not by the Ministry of Munitions?—The Munitions Department provides the mechanical transport in the first instance; it hands it over to the Army, and thenceforth the care and repair of it rests on the Army.

3068. It does not go back to the Ministry of Munitions at all?—No.

Chairman.

3069. With regard to the item on page 21, "compensation to contractors." I suppose the Treasury had no difficulty in meeting that claim, Mr. Barstow; it is only for out-of-pocket expenses and so forth?—(Mr. *Barstow.*) I think there was no difficulty in this case.

ON VOTE 9.

ARMAMENTS, AVIATION AND ENGINEER STORES.

No Questions.

ON VOTE 10.

HUTTING FOR TROOPS.

Chairman (to Sir *Henry Gibson*).

3070. Referring to paragraph 42 of your Report, Sir Henry, have you got any more of those 19 Reports?—I have received one only; there are still 18 outstanding. (Sir *Charles Harris.*) The Reports on the heaviest services are still in use by the War Department, because various questions arise on the final settlement between the War Department and the agents who carried out the work. The accounts are proving very troublesome to settle.

Chairman—continued.

Sir *Charles Henry.*

3071. Is the hutting still being done under the time and lime system, or is it being done by contract?—I do not think that there is any hutting for the Army being done under contracts of that type at present. Most of the hutting which was in hand up till recently has gone over to the Air Ministry, because it was entirely for air stations.

MAINTENANCE OF HUTTED CAMPS.

Chairman (to Sir *Charles Harris*).

3072. I observe from paragraph 43, Sir Charles, that the War Office has come to the conclusion that this maintenance of the hutted camps must be done by contractors apparently?—We found in two commands that the contractor was the only practical way of doing it; that is to say, the one agent. The great difficulty in respect of this maintenance of the hutting has been that if you employ an ordinary local jobbing contractor under present conditions he cannot get his labour. It is only the man who is continually working upon it with a specially employed staff who can keep his labour.

3073. You find that it is very costly?—It is more or less a matter of estimate, but it is less costly than it would be to have the work done by triennial contracts; that is to say, jobbing-work contracts of the ordinary type.

3074. Why should the Northern and Western Commands have this system and not the others?—There are a number of large camps in those Commands, and the peace organisation for engineer services in them is weaker than in the South, because before the War there were very few regular troops in those Commands.

Sir *Charles Henry.*

3075. Could we have the rate of the fixed remuneration to the agent?—The agent was getting £1,500 a year, and with the assent of the Treasury that has now been increased to £2,500 a year.

3076. For supervision of the work?—Yes; for carrying out the work. The value of the work is roughly something over £150,000.

Mr. *Leif Jones.*

3077. You say that this system is more costly than was originally expected. What were your original anticipations?—It has been more costly in the way of the contractor wanting a larger organisation and a larger staff. There was no exact estimate prepared originally, but it was expected to be altogether a smaller business, and we expected that the agent's remuneration would have been only £1,500, and that the expenditure would have been altogether less.

3078. Is that what you meant by those words in the paragraph, Sir Henry?—(Sir *Henry Gibson.*) That is so.

3079. Why do you say so confidently that no other arrangement would be cheaper?—(Sir *Charles Harris.*) That is the opinion both of the local authorities in those Commands and of the Director of Fortifications and Works at the War Office who has made a special study of the question, so that opinions are unanimous about that. We have also consulted the Director of Contracts as to the percentage above the datum scheduled cost at which he thinks he could get local contractors to take contracts for the work, and he reports that the lowest tender he would expect to get would be 50 per cent. above schedule, whereas, after adding in the Agent's remuneration and the expenditure, we are doing the work at about 43 per cent. over the schedule. The whole thing has been very carefully gone into in that way.

3080. Why did you not make this system universal in

ARMY APPROPRIATION ACCOUNT, 1916–17.
On Vote 10.—Maintenance of Hutted Camps—*continued.*

Mr. *Leif Jones*—continued.

in that case?—The position has varied so; the cost of labour, the difficulty of getting labour, the cost of material—everything has altered since the arrangement began.

3081. Yes, but you do not quite follow me. You adopt this system in the Northern and Western Commands, but only there?—That is because after trying the system more generally, the Southern Commands have found that labour conditions and other conditions being taken into consideration they can carry on, doing the work at first hand by direct labour employed under the Royal Engineers.

3082. Is that less costly than adopting the other system in this case?—It is less costly in those Commands, but it would be more costly in the Northern Commands.

3083. So that in each place you have adopted what you found was the cheapest system?—What we found after trial was the cheapest system.

3084. What about Ireland—what are you doing there?—I do not think any special scheme has ever been tried in Ireland. The thing is running in the ordinary way. The Engineers are either repairing it themselves by military labour or else it is being done by local contractors. Of course, labour conditions in Ireland are entirely different from this country.

3085. Is the result more costly or cheaper in Ireland?—I have had no comparison made between Ireland and home, but there is no difficulty in getting and keeping labour in Ireland, whereas you cannot get or keep labour at home.

Sir *Henry Craik.*

3086. Which of the two systems do you think works more efficiently apart from the cost altogether, and which produces the better work?—I should think the probability is that this contractor having made a special study of the thing, and having been one of the men who put up huts in the first instance, so that he knows hutting as a special subject very thoroughly, is on the whole more efficient than the local people.

SUPPLY OF TIMBER.

Chairman (to Sir *Charles Harris*).

3087. As to paragraph 44, Sir Charles, have you made any progress with settling up accounts with the Office of Works?—I am not aware that the delays which are dealt with here have been overcome. It is now out of the hands of the Office of Works. It passed from the Office of Works to my Department for two months in the spring of 1917. When we took over the accounts we got no staff to speak of with them; we found them in a very bad condition indeed, and we were not able to get them straight before the Timber Controller was changed again and the whole thing went over to the Board of Trade.

3088. There has been no loss over these muddled accounts, has there?—I think it is only book-keeping errors; there is no real loss of material to the public as far as I can tell.

Mr. *Leif Jones.*

3089. Only you cannot tell?—No. We know that there are various causes which would naturally account for discrepancies between the actual facts and accounts loosely and badly kept.

3090. Having no accounts, you hope all is well?—We have no reason to believe to the contrary.

3091. Why do you keep accounts, Sir Charles?—We keep accounts for our own satisfaction and for the satisfaction of the House of Commons.

3092. A little more than that. Do you mean it has no effect in securing that there is no waste?—I include that in our own satisfaction.

3093. In the case of this timber you have not that satisfaction?—No; we took over for a period of two months, as far as the War Office is concerned, a very

Mr. *Leif Jones*—continued.

muddled system of accounts and failed to get them straight before we handed the thing over again.

3094. I suppose it is for other Departments to clear up the timber muddle rather than you?—I should hope that by this time the Board of Trade has made considerable progress in clearing it up, but I have no information about it.

3095. You have no information as to whether the Office of Works has yet produced all the accounts it will produce?—The Office of Works ceased to have anything to do with it when it passed to us.

3096. But they still have not rendered all their accounts?—It does not rest with them any longer to render the accounts.

Chairman.

3097. In the case of the old accounts it does?—The whole of the Records went over as a going concern.

Mr. *Leif Jones.*

3098. The Office of Works have not yet cleared up the accounts for the period they dealt with, have they?—I am under the impression that the whole of the accounting passed as a going concern, with all its imperfections. (Sir *Henry Gibson.*) I promised last week to look into one question and see how it stands, and I am doing so, and I will speak about it next time.

Sir *Charles Henry.*

3099. When you had the Direction of the Timber for the two months you referred to, did you supply the other Government Departments with the Timber?—(Sir *Charles Harris.*) Yes. The Controller of Timber Supplies was for two months or thereabouts an officer of the War Office.

3100. In charging to those different Government Departments for the timber they got from you, did you charge them the actual cost price or did you allow a margin for contingencies?—It was an average price calculated to cover both the prime cost and the working expenses of the Department.

3101. I suppose that is the system that is pursued by the Board of Trade at the present time?—That is still pursued, I believe. (Sir *Henry Gibson.*) I would like to explain with regard to the last section of paragraph 44 that I am sorry to say my statement there is rather inaccurate: "At the date of this Report complete store credit apparently had not been obtained for any one of these consignments." That was written under a misunderstanding. The store credit had been obtained for the larger number, and it has been fully obtained since. I am sorry for the misstatement there.

SHORTAGES IN SHIPMENTS OF TIMBER.

Chairman.

3102. (To Sir *Henry Gibson.*) On the whole, Sir Henry, you agree with the explanations with regard to the shortages in the shipments of timber contained in paragraph 45?—Yes.

Sir *Charles Henry.*

3103. What is the percentage of discrepancy between the bill of lading and the actual receipts?—I am afraid I do not know what the exact percentage is.

3104. I suppose it occurs through timber being washed overboard, and so on?—Yes, that is one reason, certainly.

PURCHASE OF TIMBER BY CONTRACT, &c.

Chairman.

3105. (To Sir *Charles Harris.*) With regard to paragraph 46, Sir Charles, this competition in buying timber has ceased, has it not?—There is still a concurrent buying of timber, for this reason—that after the home-grown timber scheme had been developed and the prices to be charged had been fixed or controlled, so that the competition in buying really did not affect

ARMY APPROPRIATION ACCOUNT, 1916–17.

On Vote 10.—Purchase of Timber by Contract, &c. *continued.*

Chairman—continued.

affect the price any longer, contractors and various Departments were told that as far as possible they should buy home-grown timber on the spot so as to save carting about and railway transport. To that extent, so far as I know, they still independently buy a certain amount of timber locally, but that does not really spoil the market in any way for the central purchases, and the purchase of home-grown timber is all done at controlled prices.

Sir *Charles Henry.*

3106. Is there any reason why the War Department should not charge the Timber Department with the services of the people who are actually engaged in dealing with the timber?—That becomes a question of the principles of public accounting for the decision of the Treasury. Although some of the accounting officers are in favour of moving in that direction, the Treasury has not so far adopted that principle. I ought to mention upon this that the purchases for ———— which are spoken of, which were made by the Inland Water Transport Department, were stopped in April, 1917. ———— no longer purchases separately. (Mr. *Barstow.*) I would like to say with regard to timber that I understand the Timber Controller has been instructed to charge in his trading account for the services of prisoners and for all free services given by Public Departments. That will appear as an item in his trading account.

Mr. *Leif Jones.*

3107. Do you know whether that trading account of the Timber Controller is nearly ready for production?—I understand they hope to get it out up to the 31st of March last quite soon. I am afraid I have no knowledge of my own.

3108. Can you tell me will that report show the cost of producing the timber up to that date?—It should do so.

Sir *Charles Henry.*

3109. May I ask if the course pursued of not charging the Timber Department with the services of these prisoners of war and military labour is pursued in other directions? Take the national shipyards at Chepstow; do they pursue the same course?—(Sir *Charles Harris.*) It happens that there is a correspondence printed in this account between the War Office, the Post Office and the Treasury which bears very closely upon this point, at pages 60 and 61.

EXPENDITURE ON INLAND WATER TRANSPORT WORKS.

Chairman.

3110. (To Sir *Charles Harris.*) With regard to paragraph 47, Sir Charles, how did this very large extra expenditure come to be embarked upon?—That, as the Comptroller and Auditor-General remarks in paragraph 49, is really a case of great interest in connection with the form of public accounts. The fact is that there was a very large hole in our net—that is to say, in the system of accounts as kept in the Public Departments of this country. The work at ———— was done by enlisted men, and the materials used in the work were bought for stock. The consequence of that was, under our scheme of accounts, that the labour and materials were never brought to account as the cost of the service at all. The pay of the men was charged precisely as if they had been fighting in the trenches in France—simply as soldiers' pay. Their rations, their housing and all that were charged exactly as if they were fighting men. They were, as a matter of fact, down at ———— building docks and cutting channels and doing engineering work, but there was in the official accounts no cost of that engineering work at all. Similarly the materials they used were bought wholesale, and some of them were shipped over to France for use in France; some were used in ————, some were used for the ordinary maintenance

ARMY APPROPRIATION ACCOUNT, 1916–17.

On Vote 10.—Expenditure on Inland Water Transport Works—*continued.*

Chairman—continued.

service of their Department, and some were used in new construction, but the Army Accounts afforded no ledger account whatever under which all that was brought together as the cost of the service. The consequence was that they shipped for some time through my net entirely, and I did not know what was going on. I knew perfectly well that there were 20,000 or 25,000 men in the Inland Water Transport Department, but how many of them were working at ————, and how many were simply in training, and how many of them were actually manning barges on the French and Belgian canals, and so on, there is nothing in the accounts to show. Similarly I had no account which showed what became of the materials when they were once bought. It was all done in a very highly self-contained Department which was taken over by Sir Eric Geddes when he first joined the War Office, and in close personal touch with supreme authority Sir Eric Geddes carried on and developed the port of ————. About the end of the financial year concerned—March, 1917—he was succeeded by Sir Guy Granet as far as his functions in the War Office were concerned, and I took that opportunity of coming to closer touch with Sir Guy Granet, and we brought the matter fairly well under control. He kept accounts in his own Department—not official accounts, but accounts of his own for administrative purposes, which did bring the labour and materials together. The official accounts still did not do it, but I have access to those accounts of his, and I had a definite understanding with him that for every large job that is put in hand or for every considerable increase in the estimate of a job he should come through me for Treasury authority in the ordinary course. Also I had an understanding with him about the scale on which he should purchase material—that is to say, he is not to buy materials for more than six months' ordinary consumption ahead, and if he wants materials for a new programme he has to account for the cost of those materials in his estimate of the programme. The thing is therefore now fairly under control, but the official accounts are still perfectly powerless to show what work is carried out. Only the unofficial accounts, to which I have access, do show it.

3111. Before you got this arrangement, Sir Eric Geddes simply spent what he liked and made plans as he liked and got Treasury sanction without coming through you at all?—Sir Eric Geddes also had his own accounts for controlling the thing. From that point of view, looking at the department as purely self-contained and not in relation to any other department in the War Office, it was all right, but there was a failure to keep the Treasury officially in touch with what was going on.

3112. How does the port of ———— come to be part of the Inland Water Transport?—The characteristic feature of the Inland Water Transport is the scheme for working the Belgian and French canals, and in order to relieve railway traffic in France as far as possible and road traffic, and also the congestion at ports in France, it was found a most valuable thing to load barges in this country, tow them across the Channel, take them straight through into the canals, and so deliver their stuff right up to the Front without any transhipment.

3113. ———— is the port where they load the barges?—That is the great centre of barge traffic now, and, of course, since then ———— has also developed other important activities.

3114-15. But the connection of ———— with Inland Water Transport is that these are docks for the barges?—That was the essence of the Inland Water Transport idea.

Sir *Charles Henry.*

3116. There are two departments at ————, a constructive department and what you call the marine department?—There is a barge-building business at ————.

ARMY APPROPRIATION ACCOUNT, 1916–17.

On Vote 10.—Expenditure on Inland Water Transport Works—*continued.*

Sir *Charles Henry*—continued.

3117. On the point that the chairman first raised when Sir Eric Geddes had control, was he not in the habit of spending money without the sanction of the Treasury?—Without official approval from the Treasury, but he was in very close personal touch with the then Chancellor of the Exchequer, the present Prime Minister. He had complete Cabinet authority for what he did, but he had not formal Treasury authority.

3118. And the Cabinet overrules the Treasury, I suppose?—If I may say so, there is no question of overruling, but as a rule, when the Cabinet has authorised anything, as it frequently does, it is the duty of the department to get formal Treasury sanction, and that step was omitted.

3119. In the period under review, the present Prime Minister was not Chancellor of the Exchequer?—No; I was wrong. I am sorry. Perhaps I ought not to have said the present Prime Minister in particular, but with supreme authority Sir Eric Geddes was in touch.

3120. You will never be able by any account to tell what the cost of ———— is, that would be almost an impossibility?—The matter has been laid before the Treasury with complete estimates up to date of the various services; that is to say, the capital expenditure on ———— has been now before the Treasury.

3121. How could you ascertain the capital expenditure? I understood you to mention that you did not know what labour was being employed there?—The official accounts do not show it, but these departmental or unofficial accounts do show it. They show it approximately; that is to say, as the Comptroller and Auditor-General points out in paragraph 48: "for the purposes of costing it is understood that the cost per man has been taken as 8d. per hour." That was the cost of soldier labour, and that has now been raised to 9½d., because the pay of the Army has gone up.

3122. As regards material, when Sir Eric Geddes had control of this, did he buy his material direct?—He bought his material direct, but the expenditure on it was recorded in his departmental accounts.

3123. Who has charge of this now? Sir Guy Granet is no longer at the War Office?—The purchase of materials for the Inland Water Transport has been partly, but I think not quite completely, taken over by the Surveyor-General of Supplies. (Sir *Henry Gibson*) I may say that I mainly drew attention to this subject to show the imperfection of the present system of financial control arising out of the present form of estimates and accounts, and how the Treasury would have been in a far better position if under some more improved system, which I believe is now under consideration, they had been framed on the new basis. The Treasury were entirely in the dark, and could only be made aware under the present system by the War Office bringing it to their notice. The internal control of the Finance Department of the War Office was also defective for the same reason, whereas under the suggested method they and the Treasury would automatically have had knowledge of it. (Sir *Charles Harris.*) If the official accounts had been kept on the same lines as the Departmental Accounts, then not only the Treasury, but anyone seeing the account would have known what ———— was doing.

Mr. *Leif Jones.*

3124. You draw a distinction between the Treasury and the Chancellor of the Exchequer; is that a sound distinction to draw?—That is perhaps a question rather more for Mr. Barstow than for me, but, if I may say so, from my experience there is a distinction between the Chancellor of the Exchequer as Minister and the Departmental Treasury; that is to say, a very large quantity of Departmental business of the Treasury does not go personally before the Chancellor of the Exchequer.

3125. Still, when the Chancellor of the Exchequer

ARMY APPROPRIATION ACCOUNT, 1916–17.

On Vote 10.—Expenditure on Inland Water Transport Works—*continued.*

Mr. *Leif Jones*—continued.

sanctions expenditure, that must be taken to be the Treasury sanction of expenditure, must it not?—Yes, but the regular course in the public service is to get that confirmed by an official letter in the name of the Lords Commissioners of the Treasury.

3126. I should like your observations upon this point, Mr. Barstow?—(Mr. *Barstow.*) There is no question whatever that the sanction of the Chancellor of the Exchequer is the sanction of the Treasury. Naturally, it is customary that a sanction by the Chancellor of the Exchequer should be placed on official record in the Departmental correspondence. That is a subsequent stage which was omitted in the ———— case.

3127. Precisely?—But there is no suggestion that the Treasury is a separate entity, any more than that the War Office is something different from the Secretary of State or the Army Council.

3128. It was in fact merely a case of the head of the Treasury failing to inform his subordinate officials of what he had done, acting with the powers of the Treasury?—Well, I am unable to confirm or deny that. As I understand, the ————. proposals were before the Cabinet, but I am not aware to what extent they had the special authority of the Chancellor of the Exchequer.

3129. We have no evidence at all that specific sanction was given to this by the Chancellor of the Exchequer?—No evidence as far as I am aware. I ought to explain that originally (I think this has been placed on record) the proposal did come before the Treasury officially. The Treasury approval was obtained for certain works involving a cost of £109,000. There were subsequent increases and developments, but to what extent these increases and developments were specifically before the War Cabinet I cannot say. For instance, the decision of the War Cabinet that there should be a ———— established at ———— might involve a large expenditure at ————, which would naturally follow but which would not be specifically included in the original sanction. To what extent that has happened I am afraid I cannot fully inform the Committee.

3130. I do want to push this on. It is quite true that the Chancellor of the Exchequer is a member of the War Cabinet, but the decision of the War Cabinet is not necessarily a decision of the Chancellor of the Exchequer. Do I understand that the Treasury claims no hold over the decisions of the War Cabinet?—The decisions of the War Cabinet that relate to Treasury matters are communicated to the Treasury.

3131. They are not apparently; in this case it was not done?—What form the decision of the War Cabinet took which led to these different increases I am afraid I cannot say. Certainly I have seen decisions of the War Cabinet, for instance, relative to the ———— at ————, and so on, but there was no financial estimate or proposal linked up with them.

3132. That brings me exactly to the point. You say that the War Cabinet had decided on this train ferry. You knew that the Treasury had not sanctioned this expenditure, or, at any rate, you knew that the Treasury, as distinct from the Chancellor of the Exchequer, had not sanctioned it. Was it your duty or anybody's duty at the Treasury to ask whether the Chancellor of the Exchequer had authorised this expenditure?—I think not. The decision of the War Cabinet would certainly authorise the people who had the expenditure in hand to proceed with the expenditure.

3133. Where do you find that, Mr. Barstow?—I must conclude my sentence.

3134. I beg your pardon?—It would be for them to put forward proposals to the Treasury for financial authority in such directions as financial authority might be required. That was the gap which happened.

3135. But they did not do it?—They did not do it.

3136. Now what happened?—In due course the War Office wrote to us and informed us that a considerable sum of money had been expended.

ARMY APPROPRIATION ACCOUNT, 1916–17.

On Vote 10.—Expenditure on Inland Water Transport Works—*continued.*

Mr. Leif Jones—continued.

3137. Then what did you do?—The Treasury gave covering sanction to the expenditure with some observation of regret that the War Office should have omitted to convey the information to them, for which omission the War Office have apologised in their letter to us.

3138. The War Office took responsibility for not having come to you?—I think I am right in saying that.

3139. I do not see why they should make any apology if they had the sanction of the Chancellor of the Exchequer?—(Sir *Charles Harris.*) If I may intervene, the War Office recognise that it is the duty of the War Office to get official sanction, notwithstanding the personal approval of the Chancellor of the Exchequer or of the Cabinet.

3140. That rather meets a part of my point; you do admit a failure on the part of the War Office to get the sanction which was required?—Undoubtedly; if I had known what was in progress I should have considered that it was my duty to get official sanction

3141. I gather that you are of the opinion that there was a failure of duty of a considerable kind?—There was a failure, because this large financial programme was going on without the Finance Department being aware of it at all.

3142. Who was responsible for that?—That is one of the almost inevitable consequences of a scheme of accounts which is not watertight, and the bringing into a department of high authorities from outside on the understanding that they will carry on in a self-contained way. It is the superman theory, to put it in a word.

3143. I need not ask whether you are of opinion that the form of accounts should be such that this could not happen?—I hope we shall see an improvement in that respect.

Sir *Charles Henry.*

3144. May I ask when this Richborough scheme was actually started?—It began to be active about the summer of 1916. There was a small establishment there in the spring of 1916, but it was in the late summer that it began to actually go ahead.

Mr. *Blair.*

3145. As to the final Treasury sanction relating to this transaction, is the correspondence in this Report at all?—The correspondence is not printed, but the Treasury has sanctioned practically the whole of the expenditure.

Chairman.

3146. Turning to the Vote itself on pages 24 and 25, there was a very large loss by fire on Spike Island; almost at the bottom of page 25?—Yes.

3147. Is that incendiarism?—That is a loss under the Building Vote, but I am afraid I have no particulars of that.

3148. The details of expenditure under this Vote are on page 32 and following pages. May I ask a question on page 34? The Scottish Command constructed a barracks for an infantry battalion, and the figure put opposite that is £36,000; is that the total cost?—I am not sure whether the service is complete. Those are the Redford Barracks just outside Edinburgh.

ON VOTE 11.

MISCELLANEOUS EFFECTIVE SERVICES.

No Questions.

ON VOTE 12.

WAR OFFICE.

No Questions.

ARMY APPROPRIATION ACCOUNT, 1916–17.

ON VOTE 13.

HALF PAY, RETIRED PAY, AND OTHER NON-EFFECTIVE CHARGES FOR OFFICERS.

Sir *Charles Henry.*

3149. (To Sir *Charles Harris.*) Referring to the Vote itself at page 28, could you give approximately the number of officers who are getting retired pay and at the same time their rank pay, being now in the service?—I am afraid I cannot give the number of them, but a rough estimate was given two years ago to this Committee of the amount of retired pay drawn.

3150. In addition to the service pay?—Yes.

3151. I suppose we could get the number of officers who are getting both pays?—It would mean wading through the whole Army List and looking up the life history of each officer. We have no Statistical Department for such matters. (Sir *Henry Gibson.*) It is rather late in the day to do anything, as it has been going on for four years.

ON VOTE 14.

PENSIONS AND OTHER NON-EFFECTIVE CHARGES FOR WARRANT OFFICERS, NON-COMMISSIONED OFFICERS, MEN AND OTHERS.

Chairman.

3152. (To Sir *Henry Gibson.*) With regard to the first sentence of paragraph 50 on page 76, Sir Henry, although your audit was reduced to a test one it was a pretty complete one, I suppose?—It was a reasonable test. The awards went up from 46,000 in 1915-16 to 174,000 in 1916-17. I think that I examined about 50,000 or 60,000—about one-third, or 30 per cent. of them.

WOUNDS GRATUITIES IN RESPECT OF DECEASED OFFICERS.

Chairman.

3153. (To Sir *Charles Harris.*) As to paragraph 51, Sir Charles, what have you to say with regard to these wounds gratuities given without application?—I think I must plead guilty to a technical irregularity there, but it was little more than technical. The class of case in which we issued gratuities without application from the officer was mainly where the officer was either paralysed or had his right arm shot away, or something of that sort, and was in such a physical condition that he could not make or sign an application for the wound gratuity. There are not many cases in all, but there was evidence in a large proportion of the cases that the officer had expressed his intention of applying for a wound gratuity when sufficiently recovered. Then he died, and we thought it was only fair to grant the gratuity to his estate. There was one other class of case where an officer died in debt who would have been entitled to the wound gratuity if he had survived, and his relatives found it very difficult to pay his debts. We have then issued such part of the wound gratuity as was necessary to pay the debts. In order to make good the technical irregularity we recently wrote a letter to the Treasury giving these explanations and asking for covering sanction.

3154. Have the Treasury given it, Mr. Barstow?—(Mr. *Barstow.*) The Treasury is giving or has given—I am not sure that the letter has gone—covering sanction, but the Treasury agrees generally in the policy the War Office have adopted in cases where an officer is not in a condition to make an application.

3155. These are quite extraordinary cases?—(Sir *Charles Harris.*) Quite exceptional cases altogether.

3156. And there are not very many of them?—There is not a large number.

3157. What is the number?—I have seen less than a dozen myself.

Mr. *Haslam.*

3158. The amounts are owing either to the person wounded or to his estate?—They are cases where the officer, if he had survived to make the application, would

ARMY APPROPRIATION ACCOUNT, 1916–17.

On Vote 14.—Wounds Gratuities in respect of Deceased Officers—*continued.*

Mr. *Haslam*—continued.

would have been granted the gratuity. They were all cases which came under that heading.

3159. But they were really due to the officer, if he had been able to apply?—Yes.

Mr. *Blair.*

3160. What happens in the case of a wounded officer who is taken prisoner? Would he be credited with a wound gratuity?—I have not heard of any case in which an officer taken prisoner has applied while a prisoner. If he did so his case would be considered, no doubt, but it would be difficult to get the necessary medical evidence as to his condition. He has five years within which he may apply, so that no real difficulty has arisen yet from being a prisoner. (Sir *Henry Gibson.*) With regard to what Sir Charles was saying just now, I came across one case where an officer was wounded on the 16th December, 1915, and he lost the sight of his left eye, and he was killed in action on the 13th November, 1916. There was no application by the officer, but his father applied for the gratuity after his death, and the War Office themselves, in a letter dated 22nd March, 1917, explained that "the wound gratuity is awarded to an officer on his application partly as solatium for pain and suffering and partly in aid of expenses incurred by him. It has never been regarded as an emolument due to his estate." That seemed to me to be rather an extreme case, and I make that statement in answer to Mr. Haslam's question. (Sir *Charles Harris.*) That is the general position, but we have had to make exceptions in a few special cases

Chairman.

3161. Paragraph 53 relates to the total cost statement on the opposite page, 77?—Yes. Before we go to the Store Account I am sorry to say I have a confession to make, rather serious, too. There is a mistake in this Appropriation Account of nearly half a million. I think it is due to the committee that I should explain exactly how that happened. It arose out of two arithmetical errors, both of which were made by lady clerks, but it is only fair to the ladies that I should explain that they arose out of the use of an adding machine. If, in fact, the Committee will pardon a temporary lapse from the seriousness that the subject deserves, it was not the old story of Eve and the Serpent, but it was quite a new story of the Lady and the Adder! I should like to explain to the Committee that it was purely a book-keeping error. Although it occurred in connection with accounts of contractors, there was at no time any danger that the contractors could have carried off this half-million. It occurred in this way: The contractors, under certain circumstances, where there is delay in inspection and that sort of thing, get payments on account of stores delivered. When those stores are finally passed the bill is sent in in the ordinary course, charging for the stores at so much apiece, and that account is set off against the advances, and becomes what is known in the Department as a no payment bill. The course then is to charge the Vote, and to credit the contractor's personal account, in which the advance is recorded, with the amount of that bill, and the bills are dealt with for convenience in batches. The first batch of bills of that kind which was concerned the lady put through the adding machine, but she forgot to put the adding machine back to scratch to start with. She did, in fact, very much what I think almost every amateur photographer has done; that is to say, took a double exposure on the same plate. The consequence was that a total of about £50,000 in error was credited to the contractor and debited to the Vote. The machine produces a list showing the money of each item, and at the bottom the money total. In making out a long list of that description, a lady put one wrong item into it. Therefore, to save the trouble of putting it all through the machine again to

ARMY APPROPRIATION ACCOUNT, 1916–17.

On Vote 14.—Wounds Gratuities in respect of Deceased Officers—*continued.*

Chairman—continued.

get the correct total, she cut out the item and proceeded to make the total herself, but, unfortunately, she added in the machine-made total over again, and in that way she got a large error of nearly £440,000. The consequence is that there is an error of £490,442 17s. 8d. overcharged against Vote 8, and overcredited to the accounts of the contractors. Now, as regards the accounts of those contractors, I should explain that the book-keeping branch in which the official ledger account against the contractor is kept is not the only branch in which the dealings with the contractor are recorded. In the branch which operates the contracts an account is kept; and with the two contractors here concerned, who are very big men with whom we have very heavy dealings, a weekly agreement is arrived at between the contractor and that branch as to the amount due to or from the contractor. That weekly agreement has been quite correctly arrived at all along, and therefore at no time has there been anything that really gave the contractor half a million too much. It was bad book-keeping, and I have arranged, after the event, checks which will prevent anything of the kind happening again, but, unfortunately, there the error stands in this account under Vote 8, sub-head D, of nearly half a million charged in excess.

3162. I suppose your auditors could not find that out, Sir Henry?—(Sir *Henry Gibson.*) No; I am sorry to say that I am entirely indebted for this somewhat belated discovery to Sir Charles Harris and his staff. This is one of the cases where under the Exchequer and Audit Act I am entitled where I see that the Departmental examination has been properly complied with, not to do all these arithmetical castings over again. In addition to the weekly agreement referred to by Sir Charles Harris there has hitherto also been agreement between the branch operating the Contracts and the Ledger Branch, and I believe my Department was not aware that this reconciliation had not been carried out before the Appropriation Account was closed. Of course, that is a safeguard on which we very largely rely.

3163. And your Department had not satisfied themselves that it had been carried out?—We cannot do it; it would not be possible for us to do that in every case.

3164. And you did not even ask the question?—No it has been a recognised procedure, and always r ried out from time immemorial.

Mr. *Blair.*

3165. The error was discovered in the reconciliation of the two accounts?—(Sir *Charles Harris.*) Yes, and that reconciliation ought to have been carried out at a much earlier date.

Sir *Charles Henry.*

3166. In your Department, Sir Charles, and in the War Office generally do you adopt the double entry system of book-keeping or the single?—It is all double entry, and the wrong figure is masked in certain figures which are shown in the balance-sheet prepared with this account.

3167. That system is adopted everywhere?—Yes.

3168. Most Government Departments have not adopted it?—The main ledger of my Department is a double entry ledger.

Mr. *Haslam.*

3169. I saw a letter by Mr. Gibson Bowles in to-day's *Times*; has that any reference to the case you have been mentioning?—I think not; so far as it deals with accounting it is chiefly a quotation of remarks of the Comptroller and Auditor-General upon the Munitions Accounts.

3170. The case you allude to is merely a book-keeping mistake, and has not resulted in any profit to a contractor?—I want to make that very clear: that at no time was there any risk of the contractor being credited with the money wrongly. The agreement with the contractor was actually made every week correctly.

3171. Just

ARMY APPROPRIATION ACCOUNT, 1916-17.

On Vote 14.—Wounds Gratuities in respect of Deceased Officers—*continued.*

Mr. *Leif Jones.*

3171. Just one point upon this. I understand that this error of nearly half a million is to be found on page 21 of this account under sub-head D?—That is so.

3172. Will it ever be put right anywhere, or is the world for ever to be misled by this mistake?—I have provisionally recredited the half million to Appropriations in Aid of the following year, 1917-18.

3173. And there will be a note there explaining what happened?—If the Committee accepts that solution there will be a note, but it would, I imagine, be open to the Committee to recommend that the allowance of this account should be altered. (Sir *Henry Gibson.*) Yes, but I do not think that would really be of any great value, because you would not get the thing right; by disallowing half a million you will not reduce the extra charge under this particular Vote.

3174. Ought it not to be put right somewhere, so that hereafter people shall not be misled?—Yes, certainly.

3175. How will it be put right, then?—One could only have it put right by a note. We cannot put it right in the year in question now. (Sir *Charles Harris.*) The allowance of this year's account could be altered on a Report from this Committee, as I understand it, but undeniably a reference to it must appear in some form or another in the accounts of the year 1917-18.

3176. But taking this Vote 8, people may examine it curiously hereafter, and it is not desirable that an error so large as this should remain hidden even from investigators?—I am afraid it is too late to alter this figure as it stands printed; this account is signed, sealed and delivered.

3177. But we shall get a note?—(Sir *Henry Gibson.*) Certainly, there will be a note on the next year's account.

ARMY APPROPRIATION ACCOUNT, 1916-17.

On Vote 14.—Wounds Gratuities in respect of Deceased Officers—*continued.*

Chairman.

3178. It is rather a pity that there was no note this year?—(Sir *Charles Harris.*) This error only came to notice last week.

Mr. *Leif Jones.*

3179. Is there any possibility that other errors may turn up, or have you finished the possibility of that?—We have learned one lesson, and that is that an adding machine is not, as the Americans say, "fool-proof." That is a useful piece of experience, and I have given orders for additional checks to prevent anything of this particular kind arising again.

3180. That is in future, but taking this account in which those errors occur?—All the balances of contractors concerned in this account have now been agreed, so that this account is free from any further error of that class. Whether there are other possibilities of error yet undetected I do not like to say.

3181. You have devised new checks to prevent the repetition of this in future?—Yes.

3182. Have those checks been applied to the items of this account?—No.

3183. Do you not think you ought to apply them in view of the fact that it took two mistakes to make this one item wrong?—It would mean practically reworking the whole of the account, and I doubt whether it is worth while to do that.

Mr. *Blair.*

3184. Was it the same lady clerk who made the error twice, or were there two lady clerks?—Two lady clerks made the errors, and they both left the Department some time ago.

STORE ACCOUNTS.

Chairman.

3185. (To Sir *Henry Gibson.*) W shall get more about these accounts next year, Sir Henry?—Some of them, yes.

3186. As to paragraph 4, "Meat Account," have you got an answer to that inquiry yet?—Yes, it has now been received and store credit obtained.

3187. It is all right again?—Yes.

Mr. *Haslam.*

3188. With regard to this paragraph 4, I do not know whether what I have to say has reference to this matter, but I remember last year it was reported that meat which was not required by the Army was sometimes sold. I asked the question at what price it was sold, and the answer was that it was sold at the lowest possible price consonant with cost?—I think that will arise on the Vote of Credit account. (Sir *Charles Harris.*) It was not on mine.

Chairman.

3189. As to paragraph 5, "Supply of forage," have those discrepancies been adjusted?—Yes, that account was finally adjusted in April, and the papers upon it passed to the Comptroller and Auditor-General for his information. I may say that roughly whatever was deficient upon the Central Forage Account, corresponding surpluses were found upon other forage accounts. There was no evidence of anything but bad bookkeeping.

3190. Referring to paragraph 6, "Losses of Stores and Unsatisfactory Store Accounting." There is a long correspondence from page 62 to 66, Mr. Barstow, and I observe the Treasury have given the War Office considerable further powers in dealing with losses?—(Mr. *Barstow.*) Yes, the correspondence sets forth the decision I think fully. The long correspondence dealt with the interpretation of the term "Incidents of the Service."

Chairman—continued.

3191. Sir Henry, your Department is watching these things?—(Sir *Henry Gibson.*) Certainly.

3192. With regard to paragraph 7, Mr. Barstow, the anti-gas apparatus which was referred to you specially was of very large value, and there was a loss there?—(Mr. *Barstow.*) I am afraid, sir, I have omitted to bring my papers on that subject. (Sir *Charles Harris.*) I wrote to the Treasury on the 31st December, 1917; I have a copy of the letter if Mr. Barstow would like to refer to it (*handing the same to Mr. Barstow*), and the Treasury reply was quite brief, agreeing that we had done our best under the circumstances. I may remark that the supply of anti-gas apparatus was transferred in February last to the Munitions Department, so that it is no longer a War Office question.

3193. Was there any large eventual loss through fraud, do you think, at all in connection with all these matters?—No, there is no evidence of fraud at all. I had an extremely careful investigation made of the books of the contractors themselves as regards anti-gas apparatus, and my officer reported that it was quite clear they had given the public value for all the material they had received. (Mr. *Barstow.*) I would like to say, sir, in reply to your question that the Treasury letter stated "My Lords note that the Army Council is satisfied that the contractors have taken no advantage of the circumstances in which the anti-gas stores had to be very rapidly collected and stored."

3194. With regard to paragraph 8, "Accounting for Ammunition," do you think those new arrangements are working satisfactorily?—(Sir *Charles Harris.*) They are working quite satisfactorily; ammunition is not a stuff that can be converted to private uses to any great extent.

3195. As to paragraphs 9 and 10, which deal with issues to overseas contingents, have you got the information you asked for, Sir Henry, which is referred to in paragraph 10?—(Sir *Henry Gibson.*) Yes.

STORE ACCOUNTS.

Chairman—continued.

3196. Is it satisfactory?—Yes.

3197. As to paragraph 11, has that defective procedure at the Weedon Small Arms Depôt been corrected?—(Sir *Charles Harris.*) Yes; the Weedon accounts are now in a much better condition. Weedon is a depôt which holds principally small arms and clothing, and because clothing was much the more likely stock to be improperly dealt with they concentrated their stocktaking entirely on clothing and rather left the small arms out. They are now taking stock of both regularly.

3198. Has the character of the account, which is referred to in paragraph 13 as defective, been corrected too?—Yes, all that has been put in order.

3199. Do your investigations show that, Sir Henry?—(Sir *Henry Gibson.*) Yes.

3200. Does that apply to Deptford in the same way (paragraph 14)?—(Sir *Charles Harris.*) Yes, that is now in very good order.

3201. And does the same apply to paragraph 15 too?—As to paragraph 15, up till very recently I was not satisfied. The distinguishing feature at Southampton is that the tallying was being done by the Railway Company. We wrote a letter a good many months ago to the Railway Company calling upon them to get the tallying better done, and unfortunately they lost it. Finally, two weeks ago I sent one of my officers down to Southampton to spend the day tallying for himself behind the official talliers, and he reported that the tallying is now quite good.

Mr. *Leif Jones.*

3202. These three paragraphs seem to show that where special attention has been drawn to any of the depôts, then the accounting is put right, but do you think that there are cases still which have not been properly examined and therefore——?—I think all the ground has been covered now, of the large war supply depôts. They have all been put in order.

Mr. *Blair.*

3203. That is at home, but does that apply to overseas as well?—Yes. Overseas the main depôts are quite in order, but accounting is not carried so far to the front as it is at home.

Chairman.

3204. Referring to paragraph 16, have you been able to make those rearrangements of duties?—Yes; that rearrangement consisted in having one authority that was to sanction the issue, and a perfectly separate authority to carry out the actual issue, so that there should be no man authorising his own issues. That has been satisfactorily arranged.

3205. As to paragraph 17, which deals with item 34 of balances irrecoverable on page 41, how came there to be this absence of essential stock records at this depôt which led to this?—That was a very unsatisfactory case altogether. The officer in charge gave a monthly certificate on each account that he had the proper records, and that stock agreed with them, and that cannot really have been the case. Finally, he was, as is recorded on page 41, very severely dealt with.

3206. There was no check over him at all to see that the books were there; his books were never examined?—Not locally at that time. My auditor was continually pressing him to render his official account, and it became at last six months in arrear. Then my auditor reported him to the General as clearly an inefficient officer, and the case was then taken up.

3207. With regard to paragraph 18, we have to turn back to page 50 to find item 137, and it is there "attributed to faulty accounting under abnormal war conditions." Does that mean that the system of accounting at Pimlico could not readily be expanded to meet war conditions?—Yes; the difficulty was not so much in the formal accounting as in this: It is normally the duty of both the viewer, who inspects the goods, and the store-holder, who after the inspection receives them into stock, to count them, but the congestion and the pressure were so extraordinary at Pimlico during the expansion of the Army that temporarily the viewer's count was accepted, and this dishonest viewer took to packing up knives and razors ostensibly 100 in a box, but he put 90 in the box and marked it outside "100," and the store-holder was allowed for the time to take that box on at its marked contents without counting it himself. In the absence of stocktaking, the fact that he was only getting 90 knives when he charged himself with 100 was not detected for some little time. That gave this dishonest viewer his opportunity. That has all been put right some time ago.

3208. Has the full extent of the irregularities and the full loss to the public been ascertained?—It has not quite been ascertained yet, because there is still a question pending with the legal authorities as to whether action should be brought against one of the contractors implicated. In that way the case is not yet quite closed.

3209. May that result in still further loss to the public?—No; I think the amount that has been shown as the amount of the loss is the maximum, and we may possibly by an action at law recover part of it still from the contractor.

3210. Referring to paragraph 19, that was a muddle at Malta, where the fire-engine came on the scene, and the man in charge did not understand its use?—I ought to explain that that was a civilian engine—not an Army engine.

3211. Apparently you yourselves had engines which were not powerful enough for their work?—That was so. The only water supply at this particular store was the sea, and the fire, curiously, started not on the ground floor of the building, but at the top of it, and the engine would not throw water from sea level to the top of the building.

3212. I presume that has been altered now?—Yes. The real fault there was that the naval fire engines were not summoned; they have magnificent engines, and if they had been summoned at once the results might have been different. Lord Methuen said, after making very full inquiry into it, that the omission to provide that the naval people were to be summoned at once in all cases was a very unaccountable omission. Of course, he has corrected the standing orders to that effect.

Mr. *Leif Jones.*

3213. Why did not the people on the spot act outside Standing Orders? Do they read the orders before summoning help to a fire?—The first people, the subordinates and sergeants and so on, who first detected the fire, carried out their orders as soldiers do.

3214. Would it not have been better if they had simply rung the fire alarm bell?—I am not sufficiently acquainted with the locality to know.

3215. It seems very extraordinary?—They did quite correctly; they carried out their orders, they telephoned to the officer of the day and to the fire engine station, and so on, but they did not telephone to the Admiral Superintendent of the dockyard at first. Later the Navy engines came on the spot, but that was two hours after the fire started.

Mr. *Haslam.*

3216. Can you tell me whether the Government insures stores?—The Government as a rule does not insure stores or buildings.

3217. Do they ever use any appliances other than ordinary fire engines, such as extincteurs with pipes running along various parts, where the water is discharged at a certain temperature?—The War Office calls in fire experts, who recommend the measures necessary in the case of all its principal fire risks.

3218. You are aware of those automatic instruments which deluge a building or parts of the building, where the heat is raised beyond a certain temperature, automatically?—Yes; where the fire expert recommends that the circumstances call for the installation of that system it would be installed, but in these supply stores

STORE ACCOUNTS.

Mr. *Haslam*—continued.

at Malta I do not think that any fire expert would have recommended that particular system.

3219. I was asking the question in a general way, because I believe a good deal might be saved if some of these appliances were installed, and I do not know whether it is within your cognisance as to whether they are or are not frequently installed?—I can only say that the War Department is in the hands of the very best fire experts, like the Chief Officer of the London Fire Brigade and experts of that kind.

Chairman.

3220. Did you ever catch the incendiary?—No, the incendiary was purely a presumption. This fire started at the top of the house in a store of cheese, which is not a combustible thing in itself.

3221. With regard to paragraph 20, "Disposal of unserviceable clothing," what have you to say about this, Sir Charles?—We had two cases which were practically carried to arbitration. In one of them the contractor had to pay in £7,000, and was probably rather sorry that he had raised the claim against us, and in the other we undoubtedly had treated the contractor badly. His books were examined by Price, Waterhouse and Co. on our behalf, and Price, Waterhouse and Co. advised that his books showed he had a perfectly good claim against us for a large sum of money.

3222. It will come into the Appropriation Account of next year, Sir Henry?—(Sir *Henry Gibson.*) Yes.

Mr. *Blair.*

3223. Referring to paragraph 21, do the Salonika store accounts stand by themselves or are they included in your Egyptian accounts?—They stand by themselves. (Sir *Charles Harris.*) They are quite independent, and I have a separate local audit staff there.

STORE ACCOUNTS.

Chairman.

3224. As to paragraph 22, "Animal Accounts," have you anything to say, Sir Charles?—I have been able to get a report about that within the last few days. A report which my officer in Egypt had sent in March last was sunk and failed to reach me, but the position now is that of 51,891 camels bought, 50,917 have been satisfactorily traced into the accounts, leaving a deficiency of 974. There is no reason to think that those 974 are "paper" camels, because in various cases the camels were bought up-country and sent straight down on board the ships without passing through the depot accounts, and in that way the accounts became muddled. Most of the camels were bought for us by the Egyptian Government, so that there was no question of any peculation by a special buying agent of ours.

3225. What about the comparatively low price at which the camels were resold to the Egyptian Government?—As regards that, I think there must be some misunderstanding, because my officer reports that the average price at which we bought was £7 16s. 6d., and that we sold inferior camels, which were not good enough for us, at £8 4s. 2d

3226. Have you anything to say about paragraph 23?—Paragraph 23 was a concession made to the humanitarians in the House of Commons.

3227. As to paragraph 25, has the stock-taking at Alexandria proved satisfactory?—The stock-taking is going on very well, but it is a little slow. However, it is extremely thorough, and more than half had been done by last December. I think it will be finished some time this year.

3228. And the accounting for Royal Engineer stores in the Suez Canal area also?—The checking of these items has now been finished; there were only about 20 large items outstanding in December last.

3229. On paragraph 28 we have to go back to page 65 for the Treasury letter. There was nothing very extraordinary in all this, was there, Sir Henry?—(Sir *Henry Gibson.*) No.

ANNUAL ACCOUNTS OF THE ROYAL ARMY CLOTHING FACTORY FOR YEAR 1916-17.

(Sir *Charles Harris*).] The only thing to be said upon that White Paper is that stock of the work in hand at the factory was taken on the 31st of March last, and that the account for the year 1917-18 will contain a finished schedule of productions in the usual form.

ROYAL HOSPITAL, CHELSEA.

No Questions.

Thursday, 20th June 1918.

MEMBERS PRESENT:

Mr. Baldwin.	Sir Charles Henry.
Mr. Blair.	Mr. Leif Jones.
Sir Henry Craik.	Sir Robert Williams.
Mr. Haslam.	Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., and Mr. ROLAND WILKINS, C.B., called in; and Examined.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Sir CHARLES HARRIS, K.C.B., called in; and Examined.

Chairman.

3230. (To Sir *Charles Harris.*) I think, Sir Charles, you want to make a statement, first of all, as to the dealings of the War Office?—I thought it might be useful to the Committee if I made a short general

Chairman—continued.

statement as to the financial organisation and financial control pertaining to these novel accounts of raw materials.

3231. Before you begin, a little time ago there were

reasons

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

reasons why the Committee should be asked not to go into the question of wool; does that still apply?—There are certain phases of the wool question which are certainly better not discussed in public at present. The general character of these dealings in raw material is that the actual trading business is controlled by an officer called the Director of Raw Materials, under the Surveyor-General of Supplies at the War Office, who is a business man, and he has under him staffs of business men who are experts in handling and dealing with the particular materials concerned; for instance, the wool section is very largely staffed by men from the West Riding of Yorkshire, and, generally speaking, the trading is conducted by experts. The Appropriation Accounts, which are the Accounts now before this Committee, are kept on the usual public lines in the normal way by my staff in the War Office. Behind those accounts are the trading books, and those are kept on commercial lines by the officers who actually conduct the trading under the Director of Raw Materials. Those accounts are audited on my behalf by specially selected firms of Chartered Accountants, and when I say specially selected, I mean that as far possible we have selected firms of Accountants who are accustomed to the professional mysteries of each trade; for instance, for the Wool Account, which is an enormous and exceedingly heavy account, I have a firm of auditors practising in Bradford, who are accustomed to all the ways of the wool trade. Then in my own Department I have organised a special section to take charge of the financial aspects of these operations, and that section is in charge of a man of very special experience, not an ordinary Civil Servant. He was at one time in practice in Dublin as the principal of a firm of Chartered Accountants. He has besides that had a great deal of business experience of various kinds. From that point of view he is a man with quite an exceptional knowledge of Accounts and the businesses to which they relate, and I must say that I have found his assistance in keeping touch with all these trading questions absolutely invaluable. He also has other Chartered Accountants to assist him. In that way I am able to keep in touch, not with the individual trading transactions, but with the general principles upon which they are conducted, such as the principles upon which selling prices are arrived at, and things of that sort. These trading accounts are prepared, from the books kept by the Director of Raw Materials, by the firms of Auditors employed by me; but in addition to that I have prepared in my own Department every quarter approximate trading accounts to see how the businesses are going, whether they are making leeway or making a profit and so on. Those are prepared quarterly, and I send them to the Surveyor-General, so that he also may know what sort of progress his Departments are making. I may mention, too, that I have up in Bradford a sort of Receiving Cashier of my own, who carries out all the extremely large cash transactions in wool with the various spinners and others who get wool from the Government. Now as regards Treasury control, I think I ought to mention also that it is not so completely absent as public comments would sometimes lead one to think. In particular no new account under the Vote of Credit can be opened without Treasury sanction. That means in practice that we cannot take up trading in any new class of material without laying our scheme for doing it before the Treasury and getting their sanction. Then for the purposes of the Budget we give to the Treasury a forecast, as good as we can make it, of what our purchases and receipts and net charge or credit will be for the year. That is for the purposes of the Budget. Then every month also we render a statement to the Treasury showing what our probable cash requirements for the month will be, so that the Treasury can get a sort of dead reckoning of our progress in that way. The Treasury, therefore, although it is not able to control the detailed transactions, which I think would be quite impracticable, is in touch with the large financial features of the whole thing. I

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

thought some statement to that effect would perhaps help the Committee to understand exactly the way in which the War Office on the financial side is approaching these questions.

3232. Thank you. We begin with the Report itself on page 12. In the third sentence of paragraph No. 2, which deals with raw materials controlled by the Army Council, it is stated: "The Trading Accounts, except that for chestnut extract, have been compiled and audited by firms of Chartered Accountants specially employed by the War Office. The Reports of these firms have been available for my inspection, and I have therefore not felt it necessary to conduct a further audit of these accounts." Why was that account excepted?—It is quite a small account prepared by my own section. That man of special experience, of whom I spoke just now, prepared the account himself instead of a special firm of Auditors being employed to do it.

Sir *Charles Henry.*

3233. May I ask what chestnut extract is?—Chestnut extract is a tanning material.

Chairman.

3234. In one of the following sections of the paragraph it is stated: "It may be noted the stock throughout is stated to be taken at cost, and greater accuracy in this particular is looked for in 1917-18"?—I will explain what I believe that to refer to. It connects up with the Wool Account. The Wool Account is kept in various sections. First of all there is the Purchases Section, and then the Top-making Section and so on. Wool was invoiced from the Purchases Section to the Top-making Section at a price representing the prime cost plus a certain loading for the expenses of the Purchases Section. Those expenses came out lower than was estimated, and the consequence was that to a slight extent the wool reported as in stock in the hands of the Top-making Section is over-valued. In the next account prepared we hope to get the valuation adjusted to the actual rate of the expenses.

Sir *Charles Henry.*

3235. With regard to the last sentence in the paragraph about the marine risks insurance, did you debit the material at a flat rate for the marine and war risks insurance?—We debited it at what it would cost us for each cargo.

3236. You do not insure, do you?—No, it is not insured; this account takes the place of an insurance account.

3237. How do you ascertain what the premium charge should be?—In that matter we keep in very close touch with the Government insurance scheme, and we modify our charge constantly as the Government premium modifies. We have made a profit upon that.

Mr. *McKinnon Wood.*

3238. The figure you provide to the Treasury is the gross figure of the amount of money you have invested in the particular article?—Yes.

3239. You do not take any account of the stocks you may hold?—The stocks are not shown in this account at all; they are shown in the trading accounts.

3240. But in the figure you provide to the Treasury no note is taken of them?—No, we provide the Treasury with the figure for purchases and the figure for sales, and of course the difference really represents, broadly speaking, the stock in hand—very broadly.

Mr. *Leif Jones.*

3241. In your trading accounts I see no provision made for interest on advances?—In the first trading accounts which were drawn up I attempted to stand as far as possible on the principle that no fancy entries, so to speak, should be made in the books; that is to say, no sums which did not come into payment through the War Office would be dealt with in my books. Wher

20 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. R. WILKINS, C.B., and Sir C. HARRIS, K.C.B. [*Continued.*

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

I came to review the accounts that had been prepared on that basis I found that interest was not the only point on which I had been unable to adhere to the principle and therefore some months ago now I gave orders that in the next trading accounts interest should be included. I think on the whole, after experience, the account is better if it includes interest than if it does not.

3242. It is nearer the truth?—Yes.

WOOL.

Chairman.

3243. (To Sir *Charles Harris.*) With regard to paragraph 3, Sir Charles, this account which is shown on page 6 is stated to be "only an approximation, as the actual stocktakings on which it is based did not take place at the close of the financial year, nor even simultaneously in all branches, and therefore the figures had to be adjusted." Was that adjustment, like the other sum which has been mentioned, somewhere near the truth?—I think so. I will explain that stocktaking question. It arose to a certain extent from the fact of this being so completely in the hands of business men who were not accustomed to the absolute Government rule that all accounts closed on the 31st March. In some way that rather surprised me, there was a failure to appreciate that an account ought to be rendered up to the 31st of March. It happened also that I found occasion to change the auditors of the wool scheme between Christmas and March of 1917, and the new auditor in fact had hardly got into the saddle in time to see to those points. The consequence was that when I found that out and pressed that stocks should be taken on the 31st of March I was told it was too late, that it was quite impossible. It is an extraordinarily heavy account; the wool is all over the West Riding, and it really takes a great deal of physical work to take stock. They took stock as best they could at the end of April in one section and during May in another, and the professional auditors prepared their accounts up to that date, but for Parliamentary purposes I had the whole thing worked back from that account to a statement approximately as at the 31st of March, and that is the trading account statement which harmonises with the Appropriation Account now before the Committee, but the Appropriation Account is not affected by that in any way. The Appropriation Account is an absolutely true account up to the 31st of March.

3244. What about this "certain branch of the wool scheme," the store accounts of which were kept in an entirely inadequate manner?—The fault was that the original designer of the books failed to see that it would be necessary that we should have with each spinner to whom tops are delivered an account which would require to be balanced. He should have designed books which kept a separate analysis account with each spinner with whom we dealt. He did not do so, but put it all into one pool, and the consequence was that when he came to settle with any one particular spinner we had to analyse the whole pool over again. This comment is really the comment of the second auditor upon the books as he found them.

3245. We had better turn back to page 6 and note if there is anything upon No. 1, wool?—I may mention as regards the footnote to the first account that we have since this account was prepared received satisfactory accounts for the whole sum of £21,000,000 odd there mentioned.

Mr. *Leif Jones.*

3246. You have got further accounts with the Australian Government in this matter, have you not?—Yes, we are buying wool from the Australasian Governments continually.

3247. We shall get those next year?—The account for the particular year has been completely closed now satisfactorily.

3248. You have got the wool corresponding to the payments you have made?—Some of the wool has come to this country, and there is a very large quantity of wool in Australia which is stored as our property.

3249. How far are you going to store wool which you may not be able to ship to this country for years? Have you any limit in your mind?—The present proposal is that we should continue to buy the clips of wool.

3250. It is not much good asking you about shipping, I suppose, but the fact that you have not ships to bring the wool here does not affect your purchasing at all?—A good deal of wool goes from Australia not to this country but, for instance, to the United States of America; it will go in large quantities; it goes to Japan and it goes to France.

3251. You mean normally it goes?—All that is dealt with out of our purchased stock there.

3252. But those things are not going now, are they?—Of course the shipping position is not good at present.

3253. No, it is not?—That is evident.

3254. You have not really answered my question: does the shipping position at all affect your purchases?—I think the answer to that in the sense you mean is "No"; that is to say, we purchase the whole clip.

3255. Quite irrespective of how soon you may be able to get it away from Australia?—I would not say quite irrespective. It is possible, if the shipping position became absolutely hopeless, so that nobody could get wool away from Australia, we might not continue to purchase, but that is not a position that is in sight at present.

3256. Are you in a position to say that? How far ahead have you purchased?—I am not sure what the actual position as to purchase is at the moment, but the present intention is to go on purchasing.

Sir *Charles Henry.*

3257. I understand the Australian and New Zealand Governments act as agents for the home Government on this question of wool?—Yes, they sell to us, as agents for the growers, the whole clip.

3258. Did I understand you to say that you sold wool to Japan and the United States?—Yes.

Mr. *Haslam.*

3259. With regard to the profit and loss account, are you satisfied that there is a profit made on this transaction, and to what fund is it applied?—The profit at present stands in the War Office books, but at the period at which this account was prepared the quantity that had been sold was only a very small proportion of the stock in hand, and therefore it would be rather too early to declare a dividend, because the whole thing would depend upon realising your stock.

3260. I should like to know, will it in future be transferred to the Consolidated Fund?—When we close this account the profit would come back as a net credit to the Vote of Credit Account.

EAST INDIA KIPS AND RAW HIDES.

Chairman.

3261. (To Sir *Charles Harris.*) As to paragraph 4, Sir Charles, the account as to East India kips is on page 6, and also the account as to raw hides, about which there is no paragraph; have you got that account as to the hides which the note states has not yet been received?—That £35,000 also has been satisfactorily accounted for.

CHESTNUT EXTRACT AND RAW JUTE.

Chairman.

3262. (To Sir *Charles Harris.*) As to the chestnut extract which is mentioned under paragraph 5, is that a matter of foreign purchases or home purchases mostly?—Foreign purchases.

3263. Are you taking any steps to make it a home product, or is there any chance of making it so?—They

20 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. R. WILKINS, C.B., and Sir C. HARRIS, K.C.B. [*Continued.*

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

They are trying to avoid importation of tanning materials as far as possible in every way.

3264. As you know, in Kent there are a great many chestnut trees which have been used in connection with the hop-growing industry, but that use must now be getting out of date as the hop-growing industry is passing away?—I am not sure whether home production of chestnut extract is being stimulated, and I am not sure that the Munitions Department have not a call upon the chestnut also.

3265. Upon the bark as well as the wood?—I am not sure.

3266. It is worth looking into, I think?—Yes, I will look into it.

RUSSIAN FLAX.

Chairman.

3267. (To Sir *Charles Harris.*) As to Russian flax, which is also mentioned under paragraph 5, the paragraph only says that comment on the accounts is deferred to a future report?—As to Russian flax, on page 6 there is a similar note about a very large sum outstanding. We have recent'y got from the auditors in Petrograd a satisfactory account of that money as

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

money, but, of course, the question of getting all that flax home——

3268. English money or Russian money?—The exchange is being looked after by the auditor, but we have got an account for that amount of sterling. The question of getting all that flax home looks better than it did at one time, but we are not out of the wood yet.

Mr. *McKinnon Wood.*

3269. How much is there?—I cannot say how much is there now.

Chairman.

3270. Is there enough there to materially alter the situation in England with regard to flax if you could get it home?—We want every pound that there is and more.

3271. Is the flax position in England fairly satisfactory as far as you know at the present moment?—I have not seen any report of out-turn from the flax-growing in England. Both in England and in Ireland we are making vigorous attempts to grow flax.

3272. Is the acreage in flax fairly satisfactory in England?—It has been increased, but whether it is satisfactory or not I am afraid I could hardly say.

Sir Charles Harris withdrew.

OILS AND FATS ACCOUNT.

Mr. A. E. WATSON called in; and Examined.

Chairman.

3273. (To Sir *Henry Gibson.*) With regard to paragraph 6 at the top of page 14, Sir Henry, you do not go far behind the report of the chartered accountants, I imagine?—No, we see the reports and see what ground they cover and the points they raise.

Mr. *Leif Jones.*

3274. Turning to the account at the top of page 7, are you making money on the account?—(Mr. *Watson.*) The account has now been handed over to the Ministry of Food. We estimate that at the time we handed over on the 30th of June, 1917, there was a profit of about £25,000 on the transactions up to that date. Actually we did help the Ministry of Food for a little longer, until they had thoroughly organised their staff in the audit of the account up to the 25th August, 1917.

Sir *Charles Henry.*

3275. Do you as a Ministry use much of this material yourselves?—A very considerable quantity in the manufacture of glycerine.

3276. The Ministry of Food now debits you with what you require?—Yes, so far as it is used for our purposes.

Mr. *Haslam.*

3277. Is the purchase of this whale oil made from private sources, or is it a Government monopoly at the present time?—The scheme was started originally owing to the shortage of whale oil and the high price demanded by the Norwegian whalers, and a scheme was brought into existence under which we attempted to secure the whole of the whale oil becoming available from the South Sea trade.

Mr. Watson withdrew.

ON PARAGRAPH 13.

RELIEF OF BRITISH SUBJECTS IN ENEMY COUNTRIES.

No questions.

ON PARAGRAPH 14.

WAR TRADE INTELLIGENCE AND STATISTICAL DEPARTMENTS.

No Questions.

FOOD SUPPLIES—MEAT.

MR. ALEXANDER BARNES, I.S.O., called in; and Examined.

Mr. *Leif Jones.*

3278. (To Mr. *Barnes.*) With regard to paragraph 16, Mr. Barnes, I just want to know the procedure as to sale. You sell to the War Office at cost price?—Yes.

3279. And then you dispose to the civilian population what you have to sell at such a price as to balance the account; is not that it?—Yes, with a slight profit.

3280. Do you make a profit, or are you slightly on the wrong side?—We make a slight profit.

Mr. *Leif Jones*—continued.

3281. As to the quantities, have you any very large quantity to dispose of to the civilian population?—I can give you the value; it is about £6,000,000.

3282. That is for the year ended 31st March, 1917?—Yes.

Mr. *Haslam.*

3283. With regard to the price at which the meat is sold, I remember last year asking a question as to at

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Haslam*—continued.

what price the meat was sold which was not required at the moment for Army and other national purposes, and I was informed that the meat so sold was sold to contractors. I then asked at what price the meat was sold, and I was told that it was sold at the lowest possible price consonant, as I understood, with the cost. I raise the question now, and ask whether that is the case at the present moment—whether the price to the contractor is the lowest price at which the Government can sell it without loss?—There has been no change that I am aware of. This agreement still holds good under which meat has been sold through agents to the public. I have the agreement here, but I do not know whether the honourable member has a copy of it. So far as I am aware, Mr. Chairman, there has been no alteration in the arrangement for the sale of meat to the public through the ordinary agents on commission. The terms of the agreement, or rather the regulations affecting the sale, are here, and so far as I am aware they still hold good. They provide for a commission of 1 per cent. on sales ex ship and 2 per cent. on other sales, and another clause says "the selling agents shall sell the meat in the same manner in which it has customarily been sold, so that it shall as far as possible pass through the ordinary channels."

3284. Is it sold by auction?—I am afraid I cannot answer that question.

3285. Could you get me the answer?—I mean is it sold to any particular contractors or is it open to tender so that the Government may get the proper price and not always take the cost price?—There are a number of recognised firms who do meat business, and they are the people who take the meat from our agents.

3286. Do I understand that these firms meet together and decide to divide the meat between them in certain specified proportions?—I really cannot answer that question.

3287. May I ask if we might have some report as to the exact way in which this business is conducted? The amount sold appears to be very large?—The total is about 45 million pounds, and the amount sold to the public is roughly 6 millions.

3288. There is an amount of 6 millions pounds worth of meat which is sold apparently, as far as we know (we get no information to the contrary), without putting it to public tender, and it goes to a certain ring of contractors apparently. I think the Public Accounts Committee ought to have some definite information as to exactly what is done with this large amount of meat, and as to whether it is really sold to the best public advantage.

Sir *Charles Henry.*

3289. Is it not the fact that the Food Controller has control of the distribution of meat?—Generally I think that is true.

3290. Does not the Board of Trade, after having supplied the Army, turn over to the Food Ministry what meat they have available, and do not they arrange for the allocation of the meat throughout the country?—No, I think not.

3291. The Board of Trade does not arrange the allocation of the meat?—After the sale of the meat to the Government Departments for the Army and Navy and to the Allied Governments there remains a certain proportion which is sold under this agreement through recognised meat firms.

3292. Under what agreement?—This agreement of which I have a copy here.

3293. When is that dated?—Three years ago. These are general regulations, I should have said.

Chairman.

3294. With whom is the agreement made?—They are the general regulations drawn up by the Board of Trade. It is not an agreement—I used the wrong term. I should have said general regulations affecting the sale of frozen meat by the Government.

3295. Do the Committee understand that the Board of Trade sell meat to the public quite irrespective of the requirements of the Food Controller?—They sell through the medium of contractors.

3296. Quite independently of the Food Controller?—So far as I am aware, but I am not sure as to this.

3297. And therefore there is meat placed on the market over and above the requirements of the Food Controller?—But the Food Controller regulates the sale of meat by the wholesale firms and fixes the prices, from whatever source they obtain it, whether from the Government surplus or otherwise.

3298. Does not the Food Controller control the supply of meat to these different people?—By regulating the quantity each is to have?

3299. Certainly. We know that he controls all the meat sold in all the country's markets, and that no butcher can get any more meat than he is entitled to under the Control scheme. Perhaps you will find out exactly about that for the Committee?—Yes, I will take a note of that.

3300. You will please find out as to the control that is exercised?—As to the control, if any, exercised; or rather what control is exercised by the Food Controller with regard to this particular meat?

Mr. *Haslam.*

3301. And also I should like to have, if I may, Mr. Chairman, the price at which the meat is sold?—I think it is given in that report of the prices of food which was published about a year ago. (Sir *Henry Gibson.*) Was not that report two years ago before the Food Controller was established? (Mr. *Barnes.*) Yes, it was before the Food Controller took control.

Mr. *McKinnon Wood.*

3302. Are there not fixed prices at each stage? There is a maximum retail price and a fixed wholesale price?—There is a maximum retail price.

3303. Is there not a maximum wholesale price?—No, I think not.

3304. And can the contractor make a profit out of the sale of the meat apart from his commission?—I think so.

Mr. *Leif Jones.*

3305. You answered a question of mine earlier on this point. You are importing, or you were importing at this time, all the frozen meat you could get?—Yes.

3306. And you would gladly have bought more if you could?—Yes.

3307. I understand that you had really only about enough for the requirements of the Army, but that there was some surplus, and that you disposed of that surplus to the public?—Yes.

3308. You sold to the Army at cost price and disposed of the surplus to the public at such a price as covered your working expenses in addition to the cost price of the meat?—That is so. On the whole business we make a slight profit. The object, as I understand it, and I think the Treasury will agree, is that we should not do any more than that—that we should cover our expenses; but in a very large business like this it is almost unavoidable, and it is quite commendable, I think, to make a little profit, and we make a small profit.

3309. That was true at the moment of the account we are dealing with, but are you now free to settle the price at which you sell the meat to the public or is that settled for you?—That is a point about which I think I must ask you to allow me to make inquiries. The Chairman wishes further information about it.

Mr. *Haslam.*

3310. As I understand it, the contractors get the meat at the very low prices which the Government is enabled to buy the meat at, with a small addition to cover the Government office expenses?—Yes, that was so.

3311. So that if there is any difference between the Government price and the ordinary wholesale price of the day someone gets a profit?—Certainly. I think that is quite clear.

3312. On

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

3312. On the results of the working of the Argentine Frozen Meat Factory, Mr. Barnes. When did you take over that factory?—In the latter part of 1915.

3313. Do you know what you paid for it?—We recouped the British and Argentine Company to whom the factory belonged certain expenditure they had incurred in erecting the works.

3314. It was a new factory?—Yes; they had enlarged it, at any rate; we paid something like £237,000.

3315. Do you know the result of the working up to this date, 31st March, 1917?—Yes, later than that.

3316. What is the date of the last balance-sheet you have?—To the 31st December, 1917.

3317. What was the result up till then?—Very satisfactory.

3318. That I know, but I wanted the figure if I could have it. Have you got it?—Up to the end of December, 1916, there was a profit of nearly £200,000.

3319. That is well on to replacing your capital?—Yes, and to the end of 1917 there was a profit of considerably more; it was over £400,000.

3320. Was that on the year's working?—On the year's working.

3321. How is that profit arrived at? What do you price the meat at? There must be internal transactions there?—It represents the difference between the cost of production of the meat and the price which we pay for other meat of corresponding quality. The difference represents the profit on the working of this Las Palmas Factory.

3322. Where is this profit shown in the meat account?—It is credited to a general account, meat supplies, it is not shown as a separate item.

3323. There is only one lump sum here?—Yes, it is not shown separately.

3324. Is it included in the "Proceeds of Sales"?—Yes, it would be there.

3325. Do you not think it is rather a pity not to show so satisfactory an account separately; the Government have offered so many unsatisfactory accounts that it is desirable that this one should be advertised.

CHEESE.

Chairman.

3326. (To Mr. *Barnes.*) Have you anything to say about paragraph 17, which deals with cheese, Mr. Barnes?—The cheese has been taken over by the Ministry of Food as from the 1st of January last.

3327. You do not deal with these Accounts, then?—Not at present.

RAILWAY AGREEMENT—PAYMENTS TO EXECUTIVE COMMITTEE.

Sir *Charles Henry.*

3328. (To Mr. *Barnes.*) Referring to paragraph 18, Mr. Barnes, there is an account there which shows that you pay to the railway £16,870,000; does that represent the services to the Government as ascertained from the railways? The Government does not pay for any services to the railways at all?—No; there they are a set-off to the payment under the guarantee.

3329. Therefore for the transport of Government supplies and troops £16,870,000 is the amount that the Government is called upon to pay?—That is what we have paid in the year 1916-17.

3330. For all the services you have obtained from the railways?—Yes, that is so.

Mr. *Haslam.*

3331. In addition to that the Government pays for wear and tear of the lines?—That is included in the £16,000,000. The Comptroller and Auditor-General has given the details in his report.

Mr. *Leif Jones.*

3332. Has there been any endeavour to ascertain the cash value of the services rendered to the nation by the railways? We have to pay for them £16,870,000; has anyone cast up what we have received for that?—I think in the report of the Select Committee on National Expenditure based on the evidence given by Sir William Marwood it is stated: "There is reason to believe that if the traffic had been separately charged, the sums payable to the State would probably be greater rather than less than those now paid." I was under the impression that I saw an amount given which was more than we had paid, but I do not see the figure here.

3333. Do you think that somebody has endeavoured to ascertain what it is?—That would be a very difficult thing to do, of course; but I really do not know whether such an effort has seriously been made.

3334. The Railway Executive must know pretty well what they have done. Mr. Wilkins, do you know what has been done?—(Mr. *Wilkins.*) It cannot be done; neither side can tell with accuracy.

3335. Could they tell approximately? I should have thought the railway companies knew what weight of goods they had carried, for instance?—I understand that a return is furnished every month of the approximate number of train miles, but it would be very difficult to convert that into terms of cash.

3336. It may be difficult, but is it not worth doing? The war goes on. My impression is that we have driven a very good bargain with the railway companies, but I think at the end of four years we might know whether we have or not. I do not see why we should subsist upon impressions?—(Mr. *Barnes.*) The increase in the amount we are now paying to the railway companies is due largely to the bonus which is given to the railwaymen.

3337. I am quite aware of that?—And the increase in the cost of materials; so that it makes it very difficult to arrive at——

3338. It is quite a simple question. We have entered into a certain arrangement with the railway companies, on the basis of which we guarantee their pre-war profits provided they do the Government work free. Surely the Government ought to know approximately what they are getting in return for that guarantee of the profits?—(Mr. *Wilkins.*) My colleague, Mr. Robinson, who has had great experience of the subject, tells me that a serious attempt has been made to make the calculation, and that it practically cannot be done. He points out that, in addition to the actual train miles run, you may have trains waiting in stations, and there are a good many details and complications of that kind.

3339. Did Mr. Robinson do this himself?—Mr. Robinson has been in close touch with all these railway matters.

3340. Has he formed an impression as to whether it is a profitable investment or not?—I think we would prefer not to record our impression in public.

3341. To whom should I go for information upon this point? It seems a perfectly relevant question: Who knows the facts?—(Sir *Henry Gibson.*) Sir William Marwood.

3342. We have summoned Mr. Barnes here for the Board of Trade?—(Mr. *Wilkins.*) I do not know if Mr. Barnes is in a position to prepare a memorandum for the Committee, giving such information either in terms of cash or in terms of such other statistics as are available.

Chairman.

3343. Mr. Wilkins, is that return of train mileage the train mileage run on Government behalf or all the train mileage of all the trains?—It is free Government passenger service.

3344. That is, special trains run for the Government for passengers, but what about special trains run for the Government for munitions and goods?—(Sir *Henry Gibson.*) I think now an immense number of Government travellers are carried in ordinary trains. The calculation cannot be done. The whole of this arrangement was in order to get rid of all these details.

Mr. *Haslam.*] Any amount of investigation, as far as I can see, would not affect beneficially the finances of the Government or of the country generally. It would

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

would be information, but I doubt if at the present moment it would be information of very great use even if obtained. It has been pointed out that it is practically unobtainable, and that if it was obtainable it would not be correct, so we might as well drop the subject.

Mr. *Leif Jones.*] I am afraid I cannot take that view even from Mr. Haslam. It seems to me that it is a matter that should not be dropped. I am quite certain that the leading railwaymen must have a very good idea as to whether it is a good bargain for their companies or a bad bargain for their companies.

Mr. *Haslam.*] Inasmuch as you get enormous increases of wages and other factors arising during the war, in my opinion it would be impossible to make a calculation, which would be of real service at the present moment.

Mr. *Leif Jones.*

3345. I will go on to another point, but I think it is relevant, because if the revenue of the railways could be increased the charge upon the nation would be diminished. Now, Mr. Barnes, the harbour dues have been increased in many of the harbours of this country owing to increased working expenses?—(Mr. *Barnes.*) Yes.

3346. Can you tell me in the case of railway-owned harbours or ports whether there has been any increase in the dues?—Such as?

3347. There are several important ports in the country owned by railway companies, and my information is that, while other harbours have raised their dues, the railway ports have not done so, with the result that this balance that has to be paid by the nation is larger than it would otherwise be. Will you have that looked into?—Yes, I will make inquiries about it. I am certainly not in a position to answer it now.

Chairman.

3348. (To Sir *Henry Gibson.*) Are you satisfied, Sir Henry, with the audit that you are able to give, and the audit that is given to those accounts?—A very complete and careful audit is carried out by the two firms employed. It is always very much in arrear, as I say here.

3349. But what you see of the audit satisfies you?—Certainly

3350. Does that apply also to the Irish railways, which are dealt with in paragraph 19?—Yes. The new scheme only took effect from the 1st January, 1917, and no payment was made up to the 1st April, 1917, and that date does not come into this account.

SALE OF NATURAL INDIGO.

Chairman.

3351. (To Mr. *Barnes.*) Have you anything more to say about paragraph 20, Mr. Barnes? I understand you have made neither a profit nor loss on indigo?—That is now closed, showing a profit of £3,500 odd.

3352. What is the total amount of the money involved?—About £361,000.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

3353. On which you have made a profit of £3,500?—Yes.

Sir *Charles Henry.*

3354. Is indigo now a free article? Is there free trade in it now?—Natural indigo? I think so.

Chairman.

3355. We now turn back to page 8 again, where we find the payments under the railway agreement and also the subscription to British Dyes, Limited—a very important point. Is that continuing?—Yes.

3356. And to the same amount?—The limit, as mentioned by the Comptroller and Auditor-General in his last report is £1,500,000, and the Government have at present advanced £1,166,000 in round figures.

3357. Why do you call that a subscription? It is not a subscription, but a gift, is it not?—They pay interest upon it; it is secured by a debenture, and they pay 4 per cent.

3358. Put it down as a debenture next time. Can you explain the next item: "Diverted cargoes and other expenditure connected with naval prize"?—Early in 1915 a certain number of ships with cotton cargoes were seized and brought into our ports. The destination of the cotton was suspected to be enemy countries, although some of it was consigned and apparently going to be conveyed to a neutral country. The ultimate destination was suspected, and the cotton was sold by the Board of Trade, and the amount paid to the people interested in the cargoes—that is to say, they were reimbursed.

Sir *Charles Henry.*

3359. People in neutral countries?—It was mostly from the United States. The people who were reimbursed were the people who consigned the cotton, and were interested in that way—not the consignees.

3360. The cotton was sold at a loss?—Yes.

3361. Was the cotton market going down then? I thought it had been going up ever since the war?—Not in 1915. It was sold within about four or six months after March, 1915, and prices were falling.

Chairman.

3362. Referring to the loan to the River Wear Commissioners, which is No. 25 on page 8, what was that for?—Part of it is a loan without interest until six months after the termination of the war, and the other is on mortgage.

3363. For deepening the river and that sort of thing?—It was. I think, simply that owing to the war their revenue was falling off and they were in low water.

3364. The Government practically took possession of it?—It was to assist them. (Sir *Henry Gibson.*) The loan of £15,000 was for dredging. (Mr. *Barnes.*) That was the amount of the first loan. (Sir *Henry Gibson.*) It was for dredging purposes. (Mr. *Barnes.*) Yes, specifically, but since then we have made further loans.

3365. This £15,000 was for dredging?—(Sir *Henry Gibson.*) Yes.

(*Mr. Barnes withdrew.*)

WAR REFUGEES.

Sir WALTER JERRED, K.C.B., called in; and Examined.

Sir *Charles Henry.*

3366. (To Sir *Walter Jerred.*) What is the number of war refugees that we are helping to support now?—About 26,000.

3367. As against how many on the 31st March, 1917? Is it coming down all the time?—Slightly, yes. There are about 150,000 in the country altogether at the present time, and there are not more than 26,000 receiving help from the Government funds.

3368. What was your high-water mark of those receiving assistance?—That is very difficult to say; the total number who came over probably approximated to about a quarter of a million.

DESTITUTE ALIENS.

Chairman.

3369. (To Sir *Walter Jerred.*) Referring to paragraph 22, what have you to say about that camp for civilian prisoners of war, Sir Walter? Was that scheme ever made self-supporting?—It is very nearly self-supporting at the present time. The amount paid under this scheme was a very small sum, about £1,800, but it is almost self-supporting at the moment.

3370 (To-

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

GRANTS TO EAST COAST TOWNS.

Mr. *Leif Jones.*

3370. (To Sir *Walter Jerred.*) With regard to paragraph 26, Sir Walter, is that a continuing grant to the East Coast towns?—It has been continued for the financial year 1917-18.

3371. Is the amount about the same?—Exactly the same, £70,000.

3372. Turning back to the account, on page 9 I see

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

under item 27 the amount paid in that year for war refugees was £675,000 roughly. Is that same sort of amount being spent now?—very nearly, I think.

3373. For 26,000 people?—Yes.

3374. That is £30 a head?—I think you will find that all the various forms of assistance given would average about 10s. a week per head.

(*Sir Walter Jerred withdrew.*)

PURCHASE AND CONVERSION OF HOME-GROWN TIMBER.

Sir DANIEL HALL, K.C.B., called in; and Examined.

Chairman.

3375. (To Sir *Daniel Hall.*) As to this question of purchase and conversion of home-grown timber, which is dealt with under paragraph 25, Sir Daniel, have you got the records of transactions with your contractors into better order than they were?—I think it is in a fair way to giving you a proper trading account. This account is cut off in the middle. You had a trading concern which on the 31st March, 1917, was transferred. It had made a great quantity of purchases of timber; it had a large stock of timber on hand which had been already converted, and it had all its tools and horses and appliances of that kind, and the whole thing was handed over to another Department.

3376. What do you mean by a trading concern; were they private people?—It was the purchase of standing timber.

3377. You mean a Government Trading Department?—Yes. It was purchasing standing timber, converting it and selling it, and the whole business was taken over. What you see set down there, this apparent deficit of a million pounds, just represents the difference in the two cash accounts; there is no stock brought into the account at all.

3378. I am now asking on paragraph 25 as to whether you have improved the records and have made the conditions with the contractors better than they were as to requiring payments on account and so forth?—The Timber Supplies Committee now is administered by the Board of Trade, and we understand the books were quite satisfactory. The records were all there; there is no deficit in the records of any of the transactions.

3379. Do I understand that this was not a sufficiently long time under your control to enable you really to get the accounts into working order?—I think all the materials for the accounts were there, but they were not finished by any means.

3380. How long was it under the control of the Board of Agriculture?—It began in November, 1915, and the transfer was effected on the 31st of March, 1917.

3381. It was a trading concern handed over to you?—No.

3382. You started it?—We started it.

3383. And you were improving your system of accounts and getting things into order before you handed it over?—I think the Accounts Branch would say that the accounts were perfectly satisfactory at the time it was handed over. (Sir *Sydney Olivier.*) Perhaps I might intervene, as I was the accounting officer for this Vote during this year. The position was exactly as Sir Daniel Hall has stated. Our accounting officers had got the correct accounts from which a trading account could have been made up. We had not made up the trading account of the Board of Agriculture to the 31st March, 1917, but the details are there, and the whole of the accounts were handed over to the War Office, who had the thing in hand for two months, and then they were handed over to the Board of Trade.

Mr. *Leif Jones.*

3384. But, Sir Sydney, I suppose you handed over the records in full?—In full, yes.

3385. Do you know anything as to what became of them after they were handed over?—I do not.

Mr. *Leif Jones*—continued.

3386. You think the War Office has passed them on to the Board of Trade?—I think we were so informed at the last meeting of the Committee. We were speaking about the Timber Supplies Account at the last meeting, and it was stated that they had been for two months with the War Office, then they were handed over to the Board of Trade and that the War Office knew nothing more about them.

3387. Has the Board of Agriculture retained sufficient interest about the matter to know whether the Timber Control Committee at this moment has got the accounts?—(Sir *Daniel Hall.*) We are informed that all the data are in their possession and that they are preparing a trading account from the very beginning, from October or November, 1915, when they started operations. (Mr. *Wilkins.*) The Committee may be interested to hear that the Treasury have just agreed to the appointment of an expert accountant to get these accounts into order for the benefit of the Board of Trade.

3388. Have they provided an auditor?—I do not think the term "auditor" would be correct, but the Accountant whose appointment has just been agreed to is to work under the directions of the Board of Trade and to provide for the benefit and use of the Board of Trade commercial accounts in a complete manner.

3389. When do you expect that account to be completed?—The appointment of the Accountant was only assented to yesterday. (Sir *Daniel Hall.*) I think I may say that we have before us a trading account. The one thing which prevents a trading account for each operation being made up is the degree of doubt which attaches to the estimates that you can form of the value of the stock of uncut timber. The expenditure upon such timber and the stocks of cut timber on hand were all there on record.

3390. Mr. Wilkins, did the Treasury attach much importance to this account?—(Mr. *Wilkins.*) Yes; that is the reason why they have authorised the appointment of this gentleman.

3391. I saw the Timber Controller some time ago; he gave evidence before me and he told me then that he was to make it his first business to get these accounts into working order. That was a good long time ago, and I am a little surprised to hear that no account is likely to be ready for several months. I venture to tell you that I think the accounts ought to be very carefully scrutinised, and my impression is that the working of the Timber Supplies Department is very costly; the current accounts require examination, and I am very anxious to get at a trading account in order to scrutinise it?—I will make a special note of that point and convey the opinion of the right honourable gentlemen to my colleague who deals more immediately with this matter.

Chairman.

3392. (To Sir *Daniel Hall.*) Turning to the accounts on page 9, No. 35, is a sum of £1,100 odd for the Training of Disabled Soldiers in Agriculture; what is that?—That was a small experiment in the Training of Disabled Soldiers before the Pensions Ministry was established. It was agreed that a certain number of soldiers should be sent to one of the colleges, Holmes Chapel, in Cheshire, and an arrangement was made whereby the Board of Agriculture received 25s. a week for

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

for each of these disabled soldiers during their training period, their railway fares, and one or two miscellaneous expenses. That amount of £1,100 represents the training of 50 disabled soldiers at Holmes Chapel during the year in question.

3393. Is that scheme handed over to the Pensions Ministry?—Yes. The actual course no longer continues at Holmes Chapel, and the Board of Agriculture directly have nothing to do with the training of disabled soldiers now.

3394. Is there any training for disabled soldiers at present?—I think there is no agricultural training of disabled soldiers going on at the present time.

3395. Why was the agricultural training stopped?—I think there were not a very large number of men coming forward who were demanding that training. The difficulty was to keep the course full. At that time at any rate the training was not in demand.

3396. In fact, it stopped from want of the supply of men, and not really because the Pensions Ministry was set on foot?—No, I think not. Of course, the Pensions Ministry has been discussing with the Board latterly several other projects or methods of dealing with these disabled soldiers.

3397. If a sufficient scale of pensions is given the men can afford to pay for their own training, a good many of them?—I think the Ministry of Pensions regard them as being during the training period under their wing.

3398. The pensions do not run during their time of training?—That is so.

3399. It is rather a pity that it should be dropped, is it not, if there are men coming forward? Are efforts being made to get men to come forward?—The whole question is under review at the present time.

3400. Between the Board of Agriculture and the Ministry of Pensions?—Yes.

Sir *Charles Henry.*

3401. Arising upon that, as to these new agricultural colonies for disabled soldiers, will there not be training schools as well?—They are not colonies for disabled soldiers.

3402. They are only to be used for able-bodied men?—A man has to earn his own living upon them. There are one or two cases of partially disabled men who are there on probation.

3403. In those colonies there will be instruction given?—Certainly; a man enters for a year on probation during which he is qualifying and learning his job.

3404. Will disabled soldiers be debarred from taking up positions in those colonies?—Our attitude, I think, would be, if a disabled soldier presented himself, that if he did not seem likely to be able to earn his own living as a small-holder on this colony we should not accept him as a settler.

Mr. Leif Jones.

3405. The Food Production Department is still under the Board of Agriculture is it not?—The Food Production Department has its own Accounting Officer.

3406. But it is part of the Board of Agriculture?—It is.

3407. When did it come into existence?—It came into existence, I think, in December, 1916, but it was not until the following February that it had its own Accounting Officer.

3408. There is no expenditure in this account is there, Sir Henry?—We accounted for it, if you will remember, when I was here before for the first quarter of that year up to 31st March, 1917.

3409. It will all be in the Vote of Credit next year?—Yes.

3410. The reason I raised the question is because there is a large scheme for the training of girls for the land?—That is being worked through the Food Production Department.

3411. We shall get the accounts for that next year?—(Sir *Henry Gibson.*) Yes. There is a point upon paragraph 51 about the fertilizers which Sir Daniel Hall will answer for. (Sir *Daniel Hall.*) That is in connection with the purchase of nitrate of soda.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman.

3412. We should like some further statement about that paragraph 51 which deals with the nitrate of soda, Sir Daniel?—If I might give you a brief summary of the happenings in that matter, it was decided by Lord Selborne in September, 1915, that it would be necessary to purchase nitrate of soda and to bring it to this country on behalf of the Government for resale to agriculturists. The evidence that was then before the Board was that the trade (and there were various consultations with the trade), would not be importing nitrate of soda in sufficient quantities, and so Lord Selborne, the President of the Board at the time, saw the Prime Minister on the subject, and arrived at an understanding with him that nitrate of soda for agriculturists was to be regarded as of equal importance to nitrate of soda for munitions of war. A definite bargain was not made with the Admiralty, but it was taken at the time that the Admiralty would provide freight for this nitrate of soda as it would for munition nitrate, and on the strength of that understanding some 50,000 tons of nitrate of soda were purchased in Chili at the then market price. The Admiralty refused to find, or it was not possible to supply, the freight for this purpose, and the result was that the Board of Agriculture were left with this quantity of nitrate of soda lying in Chili and were unable to bring it across to resell on this side. The same difficulties of freight affected the whole nitrate market, with the result that nitrate of soda in Chili fell rapidly in price, and the Board were advised that the stock lying in Chili was steadily depreciating in value. The account was cleared up; it is rather a complicated clearing up of the account, but the first step towards clearing up the account was to sell 14,500 tons of it back again to the people from whom it was bought, or rather to pay them the difference, which represented a loss of about two guineas a ton on the 14,500 tons which was resold. Then the remainder was really taken over by the Munitions Ministry; an exchange was effected in Chili of refined nitrate for this crude nitrate, and the balance of the amount the Munitions Department took over at cost; but, of course, there was a considerable loss over the whole transaction, because of the loss of value of this nitrate of soda owing to the fall in price. At the time it was expected that nitrate of soda would rise. I have before me the correspondence with the Treasury in which authority was sought for the purchase money, and it is there stated that the nitrate market was rising, and was expected to rise, and that therefore it was important to effect the purchase at once.

3413. Sir Daniel, the governing factor of all this was the failure of the Admiralty to supply transport?—They found themselves unable to supply Admiralty freight.

3414. That was the governing factor of the whole loss?—Yes.

3415. Was not that anticipated at the time the purchase was made?—No, the contrary was anticipated, because in the correspondence and the negotiations that had been conducted with the Prime Minister he had made the statement that it was to be treated just on the same basis as munitions of war.

3416. In fact the Board of Agriculture before it embarked upon this did get an assurance from the Admiralty that the stuff would be carried?—The negotiations are confidential between Lord Selborne and the Prime Minister. I have not got that record, but it was thoroughly understood at the time that the Board would get preferential treatment, and the Board would not have embarked on the purchase without that understanding. I have no doubt that Sir Sydney could tell you more of the details.

3417. Mr. Wilkins, was that present to the mind of the Treasury when they gave leave for this?—(Mr. *Wilkins.*) I am afraid this is rather outside my own sphere: Sir Malcolm Ramsay will speak to it when he comes here.

3418. Sir Sydney you were at the Board of Agriculture at that time were you not?—(Sir *Sydney Olivier.*) I was, sir.

3419. You can perhaps confirm what Sir Daniel Hall has said?—I am sorry to say that the Accounting Officer

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

Officer of the Board of Agriculture had no knowledge whatever of the engagements or arrangements of the Fertilisers Committee, and the first I heard of this was that the bargain had been made, and the next I heard was the Admiralty would not give freights, and I knew nothing of the negotiations any more than Sir Daniel does about the understanding.

Mr. *Leif Jones.*

3420. (To Sir *Daniel Hall.*) Are you in a position, Sir Daniel, to say that anybody made any inquiries about shipping before the bargain was concluded?—I am told that no inquiries were made about shipping because it was not supposed to be necessary to go into the freight market in order to get shipping. The Board of Agriculture no doubt entered into this arrangement on the understanding that they were to have Admiralty freight.

3421. You say on the understanding, but would it not be right to say without consideration as to whether the plan could be carried out or not? Had they considered the question at all?—They had considered the question.

3422. Do you mean that they had faced the difficulties of finding shipping, and decided that they could be overcome?—No; they had, as they thought, the promise of Admiralty freight.

3423. You go so far as that?—They thought so, certainly.

3424. Were you at the Board of Agriculture then?—No, I am only speaking at second hand, and that is why I speak with some hesitation.

3425. I am sorry to press the point, but we have had a similar experience with regard to the purchase of Australian wheat, where we had occasion to know that a large purchase of wheat was effected without proper consideration of the shipping facilities. Are you, Sir Sydney, in a position to say that the Board of Agriculture considered the question of shipping the nitrate before they purchased it?—(Sir *Sydney Olivier.*) I am not in a position to say whether or not.

3426. Sir Daniel Hall has told us that Lord Selborne had an understanding with the Prime Minister, and we cannot enter into that?—(Sir *Daniel Hall.*) I can tell you that Sir Henry Rew, who was carrying out the actual details of this business (I had nothing to do with it), said that the understanding was so clear that he entered into it with his eyes open. He had been concerned with those grain purchases where the Admiralty had not supplied freight, and he was satisfied this time that they were prepared to supply freight.

3427. You mean you are quite sure the point was considered?—I am assured so; I cannot be personally sure, sir, because I had nothing whatever to do with the transactions, but I am assured that it was considered, and it was on that basis that the bargain was entered into at all.

3428. May I take you to the third paragraph there? "With a view to avoiding a similar loss on the remainder, it was subsequently decided that the balance of 35,500 tons should be exchanged for refined nitrate and taken over by the Ministry of Munitions at the original price, plus cost of exchange and rent." Was it not a little confiding of the Ministry of Munitions to take it over at two guineas per ton more than they could have purchased it for in the open market in Chili?—Without doubt, as far as the loss to the Exchequer goes, the Ministry of Munitions shouldered the loss which had already been incurred.

3429. It was very kind of them?—It was; it relieved us from the sum.

3430. It does not in the least alter the fact that there was a public loss, whether you say the Munitions bore it or not?—No, I think there is no suggestion that the loss was not incurred. (Sir *Henry Gibson.*) You asked the Treasury, sir, but I have here correspondence with the Treasury on the question of the nitrate, and there is a long memorandum put in by the Department with the accompanying letter to the Treasury, which you are aware of, Sir Daniel. (Sir *Daniel Hall.*) Yes. (Sir *Henry Gibson.*) There is nothing in this memorandum to show that the shipping rates had been considered before the purchase was made. The memorandum states: "Lord Selborne put the matter before the Prime Minister, and his minute on the subject was as follows:—'The Prime Minister authorises me to say that he regards the regular supply of nitrates to the farmer as of the same class of national urgency as the supply of nitrates to munition factories, and that consequently he wishes the Transport Department to carry all supplies of nitrates ordered by the Board of Agriculture in exactly the same way as all supplies ordered by the Munitions Department.' The Admiralty, however, on considering the matter, stated that it was extremely difficult to provide tonnage." That is the first time it appears on the record that the purchases were made in connection with any negotiations with the Admiralty.

3431. What is the date of that note?—This is a memorandum from the Board of Agriculture accompanying a long letter to the Treasury of the 23rd October, 1917.

3432. I want the date at which the particular transaction took place which has been referred to; you spoke about the Prime Minister and Lord Selborne and so on?—This memorandum says that the nitrate was sold for shipment on the following dates:—1st January, 1916; 1st February, 1916; 1st to 15th February, 1916, and 1st March, 1916—four dates in all. (Sir *Daniel Hall.*) The date of the purchases, I think——

Chairman.

3433. We do not want the dates?—(Sir *Henry Gibson.*) The date of the minute by Lord Selborne as to his interview with the Prime Minister was the 29th September, 1915. (Sir *Daniel Hall.*) The negotiations were prior to that.

(Sir Daniel Hall withdrew.)

PURCHASE AND SALE OF IMPORTED TIMBER.

Sir LIONEL EARLE, K.C.B., called in; and Examined.

Chairman.

3434. (To Sir *Lionel Earle.*) I think paragraph 30 is the important one, covering a good many of the other paragraphs, explaining the conditions which prevented all these accounts being rendered in proper time and so forth?—That is so. The arrears were due to the heavy pressure of other work and the shortage and inexperience of the temporary staff engaged. We have lost an enormous quantity of men, the ordinary officers in our Department, by various combs from ourselves and combs from the First Commissioner, and naturally we have suffered very much thereby, but I understand that the difficulties have now been overcome, and that a better system of dealing with these records is in working order.

3435. What was the pressure of other work to which

Chairman—continued.

you have referred?—All the war work we have been doing for other Departments. (Mr. *Wilkins.*) I would like to say that the Office of Works are not only doing their own work, greatly expanded owing to war circumstances, but they have also undertaken the relief of a good many other Departments, and are doing work which at ordinary times would be quite outside their proper sphere.

Sir *Charles Henry.*

3436. For example?—(Sir *Lionel Earle.*) We have been doing an enormous quantity of munitions work. We have built large factories for the Munitions Department. We have done a good deal for the Admiralty in connection with seaplanes and bomb factories for submarines. We have done large developments for the

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

National Physical Laboratory. We have built enormous aeroplane sheds at Hendon; we have done housing schemes at Hendon, and a large factory at Swindon, and so on. These works amount in the aggregate to many millions. I understand that the Board of Trade will have those accounts which are referred to in paragraph 30 within the next three months.

Chairman.

3437. You have handed all the accounts over to them?—Yes, we handed over the whole thing in March, 1917.

3438. In as good a state as you could get them into by that time?—I think so; everything is there, and it is merely a question of the clerical labour.

Sir *Charles Henry.*

3439. Did you hand them to the Board of Trade or to the War Office?—To the War Office.

3440. And the War Office had them for two months?—Yes.

Mr. *Leif Jones.*

3441. Did you hand over the accounts or are you still struggling to get them right?—No, the Board of Trade are struggling with them now.

3442. They are struggling with the details of your accounts?—They got some of our clerks, who went with the accounts.

3443. Are the same people dealing with these accounts as are dealing with the Home Timber Supplies Account, Mr. Wilkins?—(Mr. *Wilkins.*) Yes.

3444. It is all being done together?—Yes.

3445. And you think that in three months we shall get these accounts?—I don't think I mentioned any definite period; I said that the Accountant had been appointed yesterday.

3446. I got the impression that in July we were going to have them?—All I said to-day was that a special Accountant had been appointed yesterday to do this work.

3447. It was you who said three months, Sir Lionel?—(Sir *Lionel Earle.*) With regard to the accounts referred to in this paragraph which the Committee are dealing with at present, they will be ready in the next three months, I understand.

Chairman.

3448. Have you anything to say about paragraph 28?—The facts there are that, owing to difficulties in obtaining shipping, the Admiralty were approached with a view to the use of steamers in their service, and of course considerable use was then made of Admiralty transports. No flat rate was fixed at the time, and it was not until the late autumn of 1916 that figures were supplied by the Ministry of Shipping. Meanwhile, of course, considerable charges had been defrayed for the stevedoring and despatch money and other things, and we have never heard even to this day what the flat rate arranged with the Admiralty for transport covered, and even until to-day we are not sure whether the charges for stevedoring, etc., are included in the flat rate or not. Meanwhile, a considerable claim has been made against the Ministry of Shipping, and we have not yet heard whether it is to be honoured or not.

3449. That claim is a complete claim up to the time it was rendered?—It is only for part of the time, Mr. Buchanan tells me.

3450. As to paragraph 29, what have you to say, Sir Lionel?—That was a case at Coventry, where we were asked by the Local Government Board to supply timber to a contractor who was providing accommodation for the Ministry of Munitions. We agreed to supply the timber on one condition, and that was that there should be a distinct understanding that the contractor should not profit through the timber being supplied to him through the Government buyer. It was only upon this understanding, which was all in writing, that the timber was supplied. Naturally, having got this undertaking in writing, we thought

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

we had fulfilled all our obligations in the matter, and we took no further action. The timber was supplied. The contract was not actually completed until some months afterwards by the Local Government Board, and when we got a copy of the contract we saw to our amazement that it did not stipulate in this way, as we had expected and been assured would be the case, that there should be no profit to the contractor upon the timber. However, after a very careful investigation of the facts we find that not only has the contractor made no profit on the timber but he has actually made a loss. Therefore, there has been no loss of public money. We took every step that anyone could take to make it absolutely clear that if this timber was to be supplied by us—Government timber at the rate of £16 per standard—there was to be no profit whatever to the contractor upon the timber.

3451. The contract was not your contract at all?—No. There has been no loss of public money. We sent down our chief measuring surveyor to Coventry, and he went most thoroughly into the whole case, and he is absolutely certain that on this timber the contractor has made a loss. I do not say that he has made a loss on the whole contract—that I do not know—and he may have had better prices on some other parts of the work.

3452. Do you say that the Local Government Board were making a contract on behalf of the Ministry of Munitions?—It was a housing scheme for the Ministry of Munitions; it was not a munition factory, but a housing scheme.

Mr. *Leif Jones.*

3453. I understand you made the condition, but the Local Government Board made the contract for the Ministry of Munitions?—We only made the condition as to supplying timber that we would not supply it unless the contractor was to have no profit on the timber.

3454. And then the Local Government Board concluded a contract in which that condition was not embodied?—That is so.

3455. Do you know how that happened?—They did not conclude the contract at the time—it was not till three months after we supplied the timber. The actual contract was made by the Corporation of the City of Coventry, but it was under the ægis of the Local Government Board.

3456. What explanation did the Local Government Board give you about that? Did you ask for one?—We did. We wrote to the Ministry of Munitions, too.

3457. They, I suppose, knew nothing about it?—We have never had a satisfactory reply. This is what was said to the Local Government Board, under date the 18th November, 1915: "I wish to make it quite clear, however, that in supplying this timber to the Local Government Board for this scheme none of the benefits which are undoubtedly to be obtained by getting the timber from Government stocks held by this Board should go to the contractors." To that letter an official in the local Government Board replied on the 20th of the same month: "It is quite clear that in supplying this timber to the Local Government Board none of the benefits will go to the contractors, who appear to have approached your buyer in a rather unorthodox fashion. I should be obliged if you will execute the order, which is very urgent." On the strength of that assurance we naturally thought that we were quite secure. The legal document takes some time to prepare and to be executed, and it was not until three months after the supply of the timber that we realised that this clause, which ought to have been inserted in the contract, was not inserted.

3458. It is rather hard that I should torment you on the subject, because it is the Local Government Board who appear to be in fault, but have you had any explanation from the Local Government Board?—Perhaps the Committee would like to hear this: We took the matter up with the Ministry of Munitions, with whom the thing had been arranged, and who had been in close consultation with the Local Government Board, and the Assistant Secretary——

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17

Mr. *Leif Jones*—continued.

3459. I am quite willing to hear anything the Ministry of Munitions may say, but it is the Local Government Board who are the people concerned in this matter. Did they make no explanation as to their having given you an undertaking that the contractor should not benefit by obtaining Government timber, and then concluding a contract through which the contractor did benefit by obtaining that timber?—We did have a letter from the Assistant Secretary on the 12th July, in which he says: "I understand you have taken up the question of the payment for timber with the Ministry of Munitions, and there is one point that perhaps I can clear up. No one is in any way pledged to supply the contractor with timber at £16 a standard. You will remember you were unable to quote us the exact figure, and all I got from Mr Baines" (that is the principal architect in our Department) "was that you could supply timber at less than the contract price. I made it quite clear that this was a nominal figure, and that you must have whatever you think right to charge when you ascertain the cost. He has paid so far at £16 a standard. Of course, we wanted to get the money out of him, and that was the only basis we had to go on at present."

3460. That is so far satisfactory in that he says that the contractor must pay whatever you think right to charge?—Yes.

3461. Did he do so?—Yes, because we agreed to supply at £16 a standard, and on the actual figures, according to our surveyor, he has made a loss on this timber transaction.

3462. I do not see what his loss has to do with you. That is the price he was to pay for your timber?—He was to pay us in full.

3463. Has he done so?—He has done so, with the exception of about £2,000, which is amply guaranteed, because the Local Government Board hold a considerable amount of money; and we have had other contracts, and hold a considerable amount of money as well.

3464. Is he going to pay your price for the timber?—Yes.

3465. Then what benefit does he get?—He does not get any; he has made a loss.

3466. Then it really becomes only a matter of your having been able to put right a blunder of the Local Government Board in not making a proper contract?—Absolutely there has been no loss of public money.

Sir *Charles Henry.*

3467. Supposing the contractor had made a profit?—Then I should have made him disgorge.

3468. On page 9 I see there is a claim abandoned amounting to £3,500, owing to the failure of a firm of contractors to fulfil their contract?—That was a lumber corporation in Nova Scotia. We bought a certain number of standards of timber at certain prices, and the corporation failed to supply any of the timber, and purchases had to be effected elsewhere at an additional cost, which, of course, we immediately surcharged this lumber corporation with. The Treasury solicitor whom we consulted on this matter referred the matter to counsel, who advised that there was a concluded contract for the supply of the timber, and that such contract had been broken by the fault of the corporation. The solicitor thereupon made a claim against the corporation for the amount which we stated. No reply was received to any of the letters to the firm, and it was ascertained that, while a judgment obtained in this country could be enforced in Nova Scotia, it was open to question whether it would be possible to obtain such a judgment, as, the London office of the corporation being closed, the principals had gone to

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry*—continued.

Nova Scotia. The financial position of the corporation we discovered was not strong, and, in view of the difficulties in the way of enforcing the claim, the solicitor finally advised that he could not recommend the expenditure of public money in further pursuing the case. Therefore we put the matter before the Treasury, and their Lordships agreed we had better take that line.

3469. What was the monetary value of this contract?—The total value was £31,000.

3470. I suppose references were taken as to the financial standing of this firm?—I cannot tell you that offhand, I expect that our timber buyer, Mr. Meyer, who is one of the shrewdest gentlemen I have ever come across, took references. I can find that out, if you like.

3471. In cases where you go into these big contracts, I suppose you generally satisfy yourselves as regards the stability of the firms?—In connection with all contracts we make the most careful inquiries.

3472. This was a contract that Mr. Meyer entered into for you?—Yes, as Government buyer. Before I leave the chair, sir, may I ask a question which is exercising me considerably? We have had great trouble with our staff, and we have already sent 960 odd men to the Army. We have had a Tribunal sitting lately, and they have made another very serious and drastic comb. There are very few A men left in my Department, and they are wanting to take 12 or 14 men from the Finance Division. With the amount of work we have got to do we really cannot spare them without abandoning the high standard we have tried to keep up with regard to the accounts, and the question is, how far are we going to be held responsible for the accuracy of all those accounts if those trained men whom we cannot replace, because they are dealing, amongst other things, with all those claims before the Defence of the Realm Losses Commission, which are most complicated things, are taken away from us? That is the position.

Chairman.

3473. I cannot pledge the Committee, but, no doubt, they will take into consideration the shortness of staff which your Department, amongst others, is suffering from, as we have done this year?—I am appealing against the taking of certain members of the staff, because I consider they are absolutely essential if we are to carry on the work at all with the same standard of efficiency. One cannot have it both ways; one cannot lose all one's trained men, and at the same time execute all these additional arduous duties, which are now at least four times what they were before the war.

3474. I can only say, on behalf of the Committee, that I cannot pledge the Committee next year as to what they will say with regard to any excuse or reason which may be put forward with regard to not having complete accounts because of shortness of staff, but you may certainly say, in arguing your appeal, that this Committee does regard it as very serious that the accounting power of your Department should be diminished in any way?—I have used that argument already without the slightest effect, and I have even asked the First Commissioner to write to the Chancellor of the Exchequer about it.

Sir *Charles Henry.*

3475. There is a special Committee set up to deal with the Public Departments?—There is a Tribunal in my Department at the present moment, but they take the men away; they only want to have the men.

(Sir *Lionel Earle withdrew.*)

SIR FREDERICK CLARKE, called in; and Examined,

Chairman.

3476. (To Sir *Frederick Clarke.*) With regard to item 42, on page 10, Sir Frederick, those additional allowances to old age pensioners, I suppose, are strictly within the terms of the Warrant. Do you satisfy yourself that they are strictly within the terms of the Royal Warrant under which they are granted? Does this refer to the extra half-crown?—It is the extra half-crown.

20 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. R. WILKINS, C.B., and Sir F. CLARKE. [*Continued.*

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Blair.*

3477. Is that sum of £204 13s. the total amount written off as irrecoverable?—That is the total amount this year.

Chairman.

3478. With regard to item No. 48, "Expenditure connected with naval prizes—claims arising out of detention or diversion of ships"; is that the total amount for that year?—That is the total amount for that year.

3479. Is that a balance?—That is the total expenditure.

3480. It is the total expenditure altogether?—Yes.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Sir *Charles Henry.*

3481. With regard to item 43, "Duty waived on gifts to hospitals, etc." Does that mean that the tax or duty on the tobacco and so on sent to hospitals was refunded?—Yes, the duty is either not charged or refunded.

3482. If the tobacco is not taken out of bond and the duty is paid, and it goes to a hospital they can get the duty back?—Yes, they get a drawback. It is, of course, restricted to gifts to accredited hospitals.

(Sir *Frederick Clarke withdrew.*)

SALARIES AND EXPENSES OF WAR TRADE DEPARTMENT.

Sir NATHANIEL HIGHMORE, K.C.B., called in; and Examined.

Chairman.

3483. (To Sir *Nathaniel Highmore.*) There is a very small amount mentioned in the note on page 10 as having been lost which was owing by an officer who disappeared; is he lost at sea or missing?—I think it was a small sum of money that was missing.

3484. But the officer disappeared?—He was the office keeper who had a small advance for petty cash, and disappeared altogether; he went away.

3485. He bolted?—Yes.

3486. Is that the only defalcation?—That is all, that is what is stated here.

3487. There is no further defalcation as far as you know?—No.

Sir *Charles Henry.*

3488. Is there any statement of the salaries and wages in these Departments administered under the Vote of Credit?—I can give them to you; they are furnished, but they are not stated here.

Sir *Charles Henry*—continued.

Chairman.

3489. They are in the other White Paper?—Yes. (Mr. *Wilkins.*) That paper was got out specially for the information of members of this Committee in response to their request, and with a good deal of labour.

Sir *Charles Henry.*

3490. These are the salaries paid on the Vote of Credit?—(Sir *Nathaniel Highmore.*) It was got out specially.

(Sir *Nathaniel Highmore withdrew.*)

MR. CHARLES JAMES HIGGINSON, called in; and Examined.

Chairman.

3491. (To Mr. *Higginson.*) Referring to item No. 58 on page 11, Mr. Higginson, "Purchase of Commodities," there is a large number of commodities of different sorts, I suppose?—Yes, it ranges over a very wide field.

3492. And the sales are merely the sales in the course of that particular year?—Quite so.

3493. Does the figure of £2,975,000 approximately represent the stock you had in hand at the end?—Do you mean its valuation at the end?

3494. I suppose the item of £3,703,000 is the price you gave for the commodities? That is their cost.

3495. You sold a certain amount for £727,000?—Yes.

3496. My question is: Is your stock in hand fairly represented by the amount of £2,975,000?—It fairly represents it if you take it at the cost. My reason for saying that, if I might just explain, is that the function of the restriction of the Enemy Supplies Department, as no doubt this Committee is aware, is to operate in the neutral countries contiguous to Germany so as to try to prevent produce and natural products, minerals and so on from passing to the enemy. If I may be allowed to say so, I would rather not have any report if you are going into any detail with regard to the work. You will appreciate that in order to obtain those commodities we have on occasion to pay a price far in advance of what you might call the commercial value outside of Germany, so that when you ask me whether the difference between what has been paid and what has been realised is fairly represented by the goods which we hold, I can only say on the basis of the cost price, yes.

Chairman—continued.

3497. But as a matter of fact the price we pay for restriction of supplies to the enemy is considerable?—Oh yes.

3498. And would be represented if the £2,975,000 were priced out at the value you are able to obtain for your goods?—That is so.

(Mr. *Higginson withdrew.*)

MILITARY SERVICE (CIVIL LIABILITIES) DEPARTMENT.

No questions.

Thursday, 27th June 1918.

MEMBERS PRESENT:

Mr. Baldwin.
Sir Hildred Carlile.
Sir Henry Craik.
Mr. Haslam.
Sir Charles Henry.
Mr. Higham.
Colonel Sir Herbert Jessel.
Mr. Leif Jones.
Sir Robert Williams.
Mr. McKinnon Wood.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., Mr. ROLAND WILKINS, C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Haslam.*] Before the proceedings commence, may I refer to the Minutes of Evidence of our last meeting, and especially to that portion when Mr. Barnes was the witness. On the question of meat supply, in the answers we were told that £6,000,000 worth of meat had been sold during the year, and many questions were asked on the subject of its disposal. We were told that it was sold by contractors, who had sold the meat in the same way for some years, but that there was some regulation on the subject. I desire now, Sir, to ask whether we can have an exact and full report as regards the methods of disposal of this surplus meat. The suggestion is that the meat is sold at as nearly cost price as possible to these contractors, and that probably the wholesale price of meat of the day is very much in excess of the price at which these contractors are enabled to get the meat. What I wish to know is who has the advantage of that extra profit, and I desire to have full details as to how these transactions are conducted, whether the meat is sold by auction, and also whether the contractors are nominated or whether any persons interested in the purchase of meat are enabled to compete in order to get some means of dealing with it? I do not know that I want to say anything further, except that I ask you, Sir, if you will indicate that the Committee desires to have a full and exhaustive report as to the methods in which this part of the disposal of the national purchases is carried out.

Chairman.] Does that apply to the accounts under discussion up to the end of March, 1917, because anything beyond March, 1917, you would have to ask for in the House.

Mr. *Haslam.*] I understand that this six million pounds worth of meat was sold during the time for which the accounts have been audited, so that it comes within our proceedings.

Chairman.] If you will let me know exactly the figures and other details you desire to have, I will ask for them.

Mr. *Haslam.*] I wish to have a report made specially to us on this subject.

Chairman.] We will try to get the figures.

Mr. *Leif Jones.*

3499. It would not be at all difficult to give in a memorandum showing how the surplus meat which is sold for civilian consumption is dealt with?—(Sir *Henry Gibson.*) I understood that Mr. Barnes promised to put in a memorandum on the subject. (Mr. *Wilkins.*) I was certainly under the same impression.

Chairman.

3500. I thought he did make the promise, but I was not able to find it in the minutes?—(Sir *Henry Gibson.*) It is in the reply to question 3299; the question was, "Perhaps you will find out exactly about that for the Committee?" and Mr. Barnes' reply was, "Yes, I will take a note of that." (Also see reply to Q. 3309.)

SUGAR SUPPLY.

Sir MALCOLM G. RAMSAY, K.C.B., called in; and Examined.

Chairman.

3501. (To Sir *Malcolm Ramsay.*) The account with reference to the sugar supply is on page 7, Sir Malcolm. Have the Sugar Commission prepared annual accounts showing the trading results?—We have asked them to, and I understand they are preparing a trading account; in fact, they have sent one in to the Treasury.

3502. Up to the 31st March, 1917?—Up to the 31st March, 1917.

Mr. *Leif Jones.*

3503. Have they not prepared a ledger account? Is this account only prepared when we ask for it, as it were?—They began by keeping a complete record, as stated by the Comptroller and Auditor-General, of the accounts of separate cargoes and contracts. Then a question was raised in the Treasury in connection with trading accounts generally, and we asked them to prepare an ordinary trading account. That has just come in. During the last year we have given our attention to the general question of trading accounts in all these operations, and have been trying to get them all put on uniform lines.

3504. What is the result of the trading account to the 31st March, 1917? Is the balance on the right side?—I have not examined it myself, but I understand that on the whole the operations show a slight profit.

3505. What is the object of the Commission in its accounts? It is not to make a profit, is it?—Evidence which Sir Henry Primrose has given before this Committee shows that they try to keep the thing as level as possible.

Mr. *Leif Jones*—continued.

3506. So I understand?—Of course, it is very difficult to bring it out exactly even, but their aim has been, as far as possible, to conduct the operations so that they do not realise any loss or make any substantial profit.

3507. Do they claim to have achieved that result, do you know?—I am afraid I cannot say. With regard to the period up till the 31st of March, 1916, Sir Henry Primrose last year gave evidence on that point, and my recollection is that he thought they had made a profit.

3508. That was last year?—(Sir *Henry Gibson.*) I have a note that so far as completed contracts are concerned up to the 31st of March, 1917, there was quite a fair profit.

3509. What I mean is, is the profit made really a comparatively small profit—that is to say, only sufficient to cover as it were the trading operations if there was occasion for them to wind up at any given moment, or are they making what I might call an income out of the thing—that is to say, are they taxing the consumers of sugar by selling it at such price that the whole community is going to reap an income from it?—(Sir *Malcolm Ramsay.*) No. I speak with some hesitation because I am not familiar with the details, but I am fairly confident that they are only making such a profit as constitutes a reasonable margin to keep in hand to secure them against losses of cargo and so forth.

3510. That at any rate is their object?—It is.

3511. And so far as you know that is what they are doing?—Yes.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Sir *Hildred Carlile.*

3512. I notice that the profit for the three years appears to be between 2 and 3 per cent. Would it be possible to fix the price of the unit whatever it is, a lb. *or cwt. or ton, at such a price* as would ensure its being nearer a balance than that? In your view is from 2 to 3 per cent. not a perfectly reasonable margin within which it is almost impossible, considering the bulk of the dealings, to work merely closely to a balance?—This account, of course, is a cash account, and it is not complete. It is merely the receipts and payments up to a particular date. Those payments cover a certain amount of sugar which is either landed or afloat in the form of stock, and, on the other hand, they have contract liabilities to pay, so that it is not a trading account.

3513. The stock of the material, so to speak, would approximately be the same at the beginning of the *period as at the end of the period, so that in that sense* it would be roughly speaking a record of the trading of the period?—(Sir *Henry Gibson.*) There are other charges which you would have to debit the trading account with, such as establishment charges and insurance. This only represents the cash payments for the purchase of sugar, and there are other charges you have to debit the account with which would considerably reduce that figure of profit. It does not represent profit which is very much smaller than that.

3514. The, Sir Malcolm, in that case a large proportion of the apparent profit at 3 per cent., if it were reduced to a trading account, would disappear?—(Sir *Malcolm Ramsay.*) Those figures are different to a *trading account*; these simply represent the cash issued and the receipts up to a particular date from the beginning. The figures are not prepared on the basis of a *trading account which will* come out differently, as the Comptroller and Auditor-General points out.

Sir *Charles Henry.*

3515. In this Account that we have before us is the stock in hand on the 31st of March included in the £1,594,000, or is it left out entirely; have they made that profit? I take it that they have got some stock in hand?—That item represents the difference between the actual payments and *actual receipts* in the year.

3516. It reads "Excess of receipts"?—Yes.

3517. That is actual cash?—That is actual cash over.

3518. I want to know where the stock is? You must *have had some stock on the 31st March?*—Certainly.

3519. What was the 110,000 *tons?* What was it worth It is suggested that it is worth a couple of millions?—It varys between £20 and £26 a ton, depending on the quality.

3520. Therefore, according to that there is a profit made of over three and a half millions?—This particular Account relates only to the transactions in the twelve months. In the footnote you have got particulars given which show that since the beginning the receipts have been about ten millions, and the payments have been seven millions; so that there has been an excess of receipts over payments in the three years of £2,896,600. And they had 110,000 tons in stock at 31st March, which had still to be sold.

Mr. *Leif Jones.*

3521. I want to put one question on the Account. I see that this Account is "administered by the Treasury"; what is the force of the word administered, Sir Malcolm, on page 7?—In this case it is not applicable strictly. The status of the Sugar Commission is that of a Royal Commission, and it is borne on the Vote for temporary commissions, which is administered by the Treasury.

3522. You exercise no more control over it than over every Royal Commission?—No.

2523. What does that control amount to? Have you any very special relation to it that you have not to any other public expenditure?—No, I cannot say we have. Our relations to the Sugar Commission are very much the same as to the Food Controller, except that at the

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

beginning all the accounts of the Sugar Commission were actually examined by the Treasury and then passed on to the Comptroller and Auditor-General. We found that that was only lost time, and we arranged that the accounts should go directly from the Sugar Commission to the Comptroller and Auditor-General in the same way as the accounts of the Local Government Board, for instance.

3524. So that really the Royal Commission keeps its *accounts very much like any Department of the* Public Service?—Yes.

3525. The accounts are audited by the Comptroller, and the Treasury really have no very special relationship towards it?—In the year covered by this Account all the accounts were actually sent in to us and examined, and the charge I referred to took place on the 31st March, 1917.

3526. Will the heading disappear next year?—Personally, I think it had better do so.

3527. It does suggest some special relationship?—That did exist in this particular year, because all their accounts came to us, and one of our own Accounts Staff went through them all.

Chairman.

3528. That does not apply, I imagine, to the next item in the Account No. 4, "Loans to Dominions, Allied Powers, etc."?—No; there the Treasury is solely responsible.

3529. The word "administered" does apply to No. 4?—Yes, in the strictest sense.

Mr. *Leif Jones.*

3530. It is precisely because of that that I think it is misleading in the case of the Sugar Commission, except that it was true at that time?—It was true at that time; we were responsible to the Comptroller and Auditor-General for the Accounts.

Chairman.

3531. It is administered strictly by nobody now?—It is administered by the Sugar Commission, who; of course, are in constant communication with us as to the extent of their purchases.

Sir *Charles Henry.*

3532. With reference to item No 5 of the Account: "Advances to Dover and Southampton Harbour Boards and to the Caledonian and Crinan Canal Commission." Is that for exploration work?—No, that is merely maintenance; perhaps if you will refer to Mr. Bramwell he will be able to tell you more about that item.

Chairman.

3533. As to No. 6, "Advances to Public Depart*ments* for Purchase of War Loan"; were those for War Savings Associations in the various Departments?—Those advances were for the purposes of a scheme which enabled Civil Servants to take up War Loans by instalments. Broadly speaking, the Treasury bought and paid for the War Loans straight away, and resold it to Civil Servants, as their contributions came in.

3534. Taking care that there was no loss to the State thereon?—That is so. You will see that there was outstanding at the 31st March £548,000, but that came back.

3535. The Treasury were getting interest on it?—Yes, the terms were so calculated that the Treasury was not out of pocket at all; that is to say, the Civil Servant lost the interest for the period in respect of which he had not paid.

Colonel Sir *Herbert Jessel.*

3536. Referring to No. 7, "War Savings Committee," what does that mean; is that the same sort of thing?—No, that is quite different; item 6 was simply a scheme for financing Civil Servants who wished to subscribe to the War Loan; No. 7 are the expenses of the National War Savings Committee all over the country.

3537. Do

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

3537. Do they keep at this comparatively modest rate of expenditure?—Next year I think you will find it higher. It all depends really on the scale of the campaign. Since then we have had the Tank Campaigns, which involved a certain amount of expense. On the whole I venture to say that the work of the War Savings Committee has been done at very small cost to the State.

3538. I think the figure is very moderate?—It is very moderate, and there has been an enormous amount of voluntary work of the most admirable character all over the country.

NAVAL PRIZE: PAYMENTS UNDER AGREEMENT WITH AMERICAN PACKERS RESPECTING GOODS SEIZED, AND EXPENSES OF PRIZE CLAIMS COMMITTEE CONNECTED WITH THE USE OF SHIPS CONDEMNED OR DETAINED.

Chairman.

3539. (To Sir *Malcolm Ramsay.*) Referring to paragraphs 9 and 10, on page 14, can you tell us about those legal difficulties?—Perhaps you will be good enough to ask Mr. Barstow on that point.

3540. Will you kindly tell us about these legal difficulties, Mr. Barstow?—(Mr. *Barstow.*) Yes, Sir. A Government Department would have no right to use receipts of this kind for payments to persons not authorised by an Order of Court. Receipts in prize could not be used except under an Order of Court. Those payments did not come under an Order of Court, but were the result of the executive action of the Crown, and consequently had to be made from the Vote of Credit.

3541. Is that because the crews of the ships who destroyed these merchantmen were not under the Orders of the Court?—I beg your pardon; are you asking about No. 8?

3542. I beg your pardon; what are the legal difficulties referred to in paragraph 10?—That is the same difficulty, that those are payments made under execu-

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

tive authority and could not therefore be taken from prize moneys under the jurisdiction of the Court.

3543. Do you take the next paragraph, "Oversea Prize Disposal Committee"?—Yes. I was at that time accounting officer for that account.

3544. We ought first to take item No. 12 of the account, at the top of page 8, "Foreign Trade Debts Committee," where there is an entry "less payment under guarantee for a dishonoured bill." Was that a foreign bill which was dishonoured?—(Sir *Malcolm Ramsay.*) No; the scheme operated by this Committee was to enable traders in this country who were owed debts from abroad which were for the time being irrecoverable to carry on, and advances were made on the security of the bills which were in enemy countries and could not be collected. The method of advance was that the trader was allowed to draw a bill on a bank in this country which was accepted by the bank under Government guarantee. One of the traders who drew a bill for a sum of £1,000 was unable to meet the bill on maturity, and 75 per cent. of the loss—namely, £750—fell on the Government, the remaining 25 per cent., £250, being met by the bank. There is an insurance fund in connection with this scheme which amply covers all the liabilities. The traders to whom advances are made pay a commission which is accumulated as an insurance fund; the insurance fund at the 31st December, 1917, amounted to £16,000, and so far there has been only this one loss of £1,000, of which £750 was charged to the Vote of Credit.

(*Sir Malcolm Ramsay withdrew.*)

OVERSEA PRIZE DISPOSAL COMMITTEE.

Chairman.

3545. (To Mr. *Barstow.*) Has a complete account of the Alexandria Prize Court money yet come in?—I think it has not yet been received.

(*Mr. Barstow withdrew.*)

WHEAT COMMISSION.

Sir HENRY REW, K.C.B., called in; and Examined.

Chairman.

3546. (To Sir *Henry Rew.*) You are the Accounting Officer of the Wheat Commission, Sir Henry?—Yes, Sir. May I ask the indulgence of the Committee? I was under the impression that you were probably going to ask me some further questions on the subject of the fertilisers, and I am sorry that I have not come prepared with any papers with regard to the Wheat Commission.

3547. We have finished with the fertilisers question?—Sir Daniel Hall was here before, and my name was mentioned in the course of his evidence.

3548. You mean on the nitrate of soda question?—Yes, and I quite erroneously jumped to the conclusion that the Committee wanted to hear more on that subject.

3549. I think we finished that?—(Sir *Henry Gibson.*) That was finished. (Sir *Henry Rew.*) It is entirely my fault. (Sir *Henry Gibson.*) Sir Henry Rew did not quite follow what the subject was on which the Committee desired to examine him.

3550. But you are the Accounting Officer for the Wheat Commission?—(Sir *Henry Rew.*) Yes.

Chairman—continued.

3551. You mean that it is no use asking you any questions because you have no papers to refer to?—It is a little difficult because I have not looked up any papers in connection with the subject. If there is any question I can answer I shall be glad to do so. I am merely asking the indulgence of the Committee in having to rely on my memory entirely.

Mr. *Leif Jones.*

3552. There are a good many papers in connection with the subject, Sir Henry?—Yes, and the subject is complicated. I do not think it would be very satisfactory to the Committee.

Chairman.

3553. We will adjourn the consideration of the Wheat Commission to another day when both you and we are more fully armed, and in the meantime the correspondence will be printed and circulated?—Thank you, Sir.

(*Sir Henry Rew withdrew.*)

CENTRAL CONTROL BOARD (LIQUOR TRAFFIC).

Mr. JOHN PEDDER, C.B., called in; and Examined.

Mr. *Leif Jones.*

3554. (To Mr. *Pedder.*) Have you compiled trading accounts of the results of your operations?—Yes. As regards the Invergordon and Gretna undertakings, accounts have been prepared and published—statements of assets and liabilities and profit and loss accounts. As regards the two others, the Carlisle District and the Enfield District accounts have not been published.

Mr. *Leif Jones*—continued.

3555. Are

27 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. R. WILKINS, C.B., and Mr. J. PEDDER, C.B. [*Continued.*

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916–17.

Mr. *Leif Jones*—continued.

3555. Are you going to publish them?—It is intended and hoped to publish them when the accounts are sufficiently advanced to make it possible.

3556. How long has the scheme been running, say at Carlisle? It has been running a good long time now?—It has been running since the middle of 1916.

3557. Do you not think it is time to publish accounts?—The difficulty is that the capital payments are still under litigation in various forms.

3558. I was going to refer you to the bottom of page 10, which professes to be a sort of account; the bulk of your expenditure is all included under one large item of £343,000, without any details at all?—Yes.

3559. Is it not possible to furnish details of that large amount?—I understand this is the form of account which was approved and settled by the Treasury.

3560. Mr. Wilkins, have you received from the Control Board details of that item at the bottom of page 10?—(Mr. *Wilkins.*) Yes, I am informed the details have been sent in.

3561. Is it intended to publish those details in any way?—I am afraid I have no personal knowledge on the subject.

3562. Has Mr. Robinson?—I understand this last item of £343,000 represents the net working capital.

3563. I really want more details from the Treasury. That is one of those cases in which it was pointed out to us that great advantage accrued to the public because the Treasury placed one of their own high officials upon the Control Board, who watched the expenditure of the Board in the interests of the Treasury and of the public, and the Treasury was therefore thoroughly well informed as to all this expenditure?—That is so, and I have no doubt that that official is perfectly cognisant of the details. I was not personally aware that this question would come up to-day, and therefore I did not fortify myself with the facts.

3564. Who is your representative on the Board?—Mr. Meiklejohn.

3565. He is not here to-day?—(Mr. *Pedder.*) He would not have the Treasury responsibility in the sense in which I was speaking. (Mr. *Wilkins.*) He is not accounting officer.

3566. But he would give the Treasury view of the operations of the Control Board. You know, Mr. Wilkins, the expenditure of the Board has been considerably criticised both by the public and by the War Losses Commission?—May I have a note on the points on which the Right Honourable gentleman would like information?

3567. I want an explanation of the figure of £343,000: I want to know where the money has gone?—The accounting officer is present.

3568. He tells me that that is the way he accounts for it?—(Mr. *Pedder.*) That is so.

3569. I asked for details, and this is what he has given me. I want to know how much they have given for the individual breweries and houses that they have bought. I want to know the full details?—(Mr. *Wilkins.*) That is surely a question which it is within the province of the accounting officer to answer.

3570. Can you supply me with those details, Mr. Pedder?—(Mr. *Pedder.*) I am afraid I cannot; I cannot carry in my head all the details of the properties and the moneys paid for them.

3571. Mr. Pedder, you are here to answer questions on this account, if I may say so. I understand that you have not brought with you the information necessary to answer the question I have put, but I should have thought you would have brought it?—I do not know how I can answer questions as to all the undertakings and all the properties.

3572. And I cannot put questions about specific undertakings if an account is not produced?—May I refer to the published accounts of the two districts which are mentioned?

3573. I know them well, and there is nothing in them which would satisfy anyone who really wants to know how the expenditure has been made, what number of years' purchase you have given for the houses, and how you have really dealt with the problems. There is nothing in the accounts at all which would explain that. Take, for instance, the purchase of the Maryport Brewery and its appurtenant houses, is all that settled, or is there any litigation pending there?—The money for that is not yet paid.

3574. I asked if litigation was pending over that matter?—No, there is no litigation over the Maryport Brewery; the money is not yet paid because there are outstanding liabilities on their side to the Board.

3575. Admitted liabilities?—They are in process of adjustment, and I do not know exactly the details. The price has been settled, but it has not been paid.

3576. Do you think, Sir, that it is an unreasonable thing for me to ask what are the large general items of expenditure covered by this item of £343,000?—I think I ought to submit that there would have to be reservations as to the publication of the details. This is a trading concern, in competition with other trading concerns.

3577. That is a matter, Sir, which I suggest is for the consideration of this Committee and not for the witness.

Chairman.] It is for this Committee to publish or not; this Committee can say that it is not to be published, but there is no reason why this Committee should not have every figure. This Committee gets lots of figures, from the Admiralty, for instance, which are never published; they are given confidentially to the Committee, and we ought to see these figures in connection with this Board in the same way.

Sir *Henry Craik.*

3578. It might be useful to know this: Can you, Mr. Pedder, characterise the sort of difficulties which occur to you about giving these figures?—I think they are the same difficulties which would arise with regard to any trading company as to producing details of its inner workings.

3579. It might be very difficult for you to carry out further bargains if you were compelled to declare all the terms you had come to in already settled bargains?—That is so.

3580. It might have a considerable effect upon the market price of the properties which you might wish to acquire?—Certainly. They are all difficulties which would occur in an ordinary trading business.

Mr. *Leif Jones.*

3581. Would it surprise you to know, Mr. Pedder, that the particulars of a great many of your transactions are published monthly in the "Brewers' Journal"?—Some.

3582. Their side of the question is put with comparatively little secrecy, especially if they do well in the bargains?—Yes.

Chairman.] What the Committee want is a really complete account up to the 31st March of the operations of this Liquor Control Board. If the Minister in charge tells us that he thinks for the public interest they should not be published, the Committee will decide upon that afterwards, but meanwhile the Committee wants a complete account of the operations of the Control Board up to the 31st March, 1917. We will consider the question of publication afterwards, and you might indicate what you think ought not to be published.

Mr. *Leif Jones.*

3583. I do not want to make the operations more difficult. I quite understand the difficulty of making bargains with brewers and so on for the purchase of these places, and my criticism, perhaps, is that you have paid rather too big prices. I am not likely to do anything which will enable them to put further pressure upon you?—(Mr. *Wilkins.*) I am sure the Departments will do everything in their power to meet the Right Honourable gentleman. (Mr. *Pedder.*) For my own information, as to the meaning of "a complete account," may I ask whether what you desire is a statement of all the moneys paid for the various undertakings and premises? Is that it?

3584. Yes, and if it were possible I would like to know also—it would only arise next year properly perhaps—the bargains concluded at that date for which the money had not been paid?—(Mr. *Wilkins.*) A considerable controversy is going on at the present time about the form of public accounts, in which it has been pointed out that accounts are answers to questions. May I be quite clear as to the questions to which the Right Honourable gentleman desires a reply?

3585. It

27 *June* 1918.] Sir H. GIBSON, K.C.B., Mr. R. WILKINS, C.B., and Mr. J. PEDDER, C.B. [*Continued.*

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916–17.

Chairman.

3585. It has nothing whatever to do with the discussion of the form of public accounts. This is the ordinary case of the preparation of a balance-sheet. Mr. Pedder talked about an ordinary trading company's balance-sheet. We want to have a balance-sheet of that kind, and I want to ask the kind of questions which one would ask in the inner room of a company's premises about this Board's operations?—I simply wanted to know how much detail the Committee wished to have.

Mr. *Leif Jones.*] I will put it to you, Mr. Wilkins; I would ask the Control Board, through its accounting officer, to suppose that he is about to appear before the shareholders of a company of which he is secretary, the company in a rather uneasy frame of mind because a large sum of money has been spent, of which no explanation has yet been furnished to the shareholders, and I would ask him to come prepared to answer every question which a rather cantankerous shareholder whose money is invested in the company would be likely to put to him at the company meeting.

Sir *Henry Craik.*

3586. You put that before your Control Board, and I presume that any action by your Control Board would be taken in concert with the Ministry of Munitions?—(Mr. *Pedder.*) Yes, and the Treasury.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916–17.

Sir *Henry Craik*—continued.

3587. You understand they will decide their course on their own responsibility in connection with the Ministry of Munitions?—Yes.

Mr. *Leif Jones.*] I will defer any further question until we get that account.

Mr. *Higham.*

3588. I think we ought to enquire into the case of the properties separately, and find out with regard to each property whether the cost of it was arrived at by a valuation or at so many years' purchase. That would be sufficient evidence to enable us to put questions; it would give the whole expenditure, and if any properties were sold they would be on the received side, and that would give the formation of the capital account?—I will endeavour to produce what the Committee desire.

Mr. *Leif Jones.*

3589. I will put one general question to you; is there any real difficulty in furnishing the account for which I have been asking? Do you anticipate any difficulty?—There is no difficulty at all in finding the figures, not in the least.

(*Mr. Pedder withdrew.*)

SALARIES AND EXPENSES OF THE AIR BOARD.

No questions

WAR PENSIONS STATUTORY COMMITTEE.

Sir CYRIL JACKSON, K.B.E., called; and Examined.

Chairman.

3590. The Committee will see the note to Item 62 on page 11, "Detailed accounts of the expenditure out of these advances will be prepared and presented to the House of Commons." Is that coming soon, Sir Cyril? Is this the White Paper which came out the other day?—(Sir *Cyril Jackson.*) I have only seen this White Paper this moment.

3591. (To Sir *Malcolm Ramsay.*) I understand, Sir Malcolm, that you partly answer for this White Paper?—I answer for the salary under Class VI., Vote 7. There is a separate Vote for the salary.

3592. That is Class VI., Vote 7, in the Civil Service Appropriation Account?—Yes.

3593. You mean the salary of the Vice-Chairman?—Yes.

3594. We do not ask any question about that, thank you. Now we will turn to the White Paper?—(Sir *Henry Gibson.*) My report is on page 4.

Chairman—continued.

3595. There is nothing on the first paragraph; have you anything more to say about the second paragraph, Sir Henry?—I think not; the correspondence with the Treasury is published.

3596. Is the arrangement to which reference is made working satisfactorily, Sir Cyril?—(Sir *Cyril Jackson.*) I think so. I am in an awkward position; I do not know in the least what is happening now, because I have been out of touch with everything since August last. I was abolished then, and I know of nothing since.

3597. So that of the last eight months of the year you know nothing?—I know nothing at all.

(*Sir Cyril Jackson withdrew.*)

EXPENDITURE BY MINISTRY OF SHIPPING (LATE ADMIRALTY TRANSPORT DEPARTMENT).

Mr. H. N. BUNBURY, C.B., called in; and Examined.

Sir *Charles Henry.*

3598. (To Mr. *Bunbury.*) Referring to paragraph 49, on page 23, I see there is a net receipt in the period under review of £1,367,000?—That is so.

3599. How do you account for that net receipt? Is it trading profit?—No, it is not profit. It is merely the excess of the receipts by the Transport Department over the payments by the Transport Department within the financial year.

3600. It will be adjusted by payment to the shipowners for hire of their steamers?—That is included, but what is not included, and is, I think, one of the largest items, is bunker coals supplied by the Admiralty and charged to Navy Votes.

3601. That accounts for it. Has it since been charged to your Department?—No, we do not adjust with the Admiralty.

3602. Therefore you will never keep any account as to how your trading as a Ministry will be determined?—An account could be made out if a basis of account could be settled; we have all the materials; but, as the Hon. Member will understand, some of our transactions may show a profit, and others are cost and

Sir *Charles Henry*—continued.

others are pure loss. All the Military Transport Services, for instance, and the vessels supplied to the Navy for the purposes of the Fleet are pure outgo, and there is no income.

3603. With regard to those vessels trading for the Government on a free basis, is there any reason why the Admiralty should not debit you with the coals you take in or require?—Clerical labour is the only reason. We have gone on the principle of avoiding clerical labour as much as possible. Adjustments of account between Departments do involve a good deal of clerical labour, and they do not lead to any result, because it is all the one pocket.

3604. Does it not give a wrong impression to the public by the idea that you are making a profit which you are actually not making?—That could be corrected by a footnote.

3605. Could you state in the footnote how many tons of bunker coal you received from the Admiralty?—That could be done approximately quite easily.

3606. I think that would be advisable.

3607. The

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

3607. The primary object was for the financing and payment of Transport Services for the Allied Governments. Are those accounts strictly kept?—Very strictly, I think.

3608. Are they rendered to the other Governments, or how are they charged up?—They are adjusted through the Treasury. We certify periodically, weekly, I think, to the Treasury, that we have expended so much for account of Allied Governments, and the Treasury thereupon adjust that in their books; they debit the Allied Governments in their books.

3609. Are these accounts in any way agreed with the Allied Governments?—I think they are agreed, speaking from memory; I think they go to the International Commission, who authorise the account to be agreed on behalf of the Allied Governments.

3610. At regular intervals?—Yes, this certainly applies to the majority of them; I will not say it applies in every case without refreshing my memory.

3611. You think these accounts are kept up to date and are not in arrear?—From time to time we have been a little in arrear in getting the debit entered in the Treasury books against the Allied Governments. I believe it is now up to date.

3612. Mr. Wilkins, have you anything to say on that?—(Mr. *Wilkins.*) There is a general clearing-house arrangement with the Allied Governments.

3613. And these accounts are not substantially in arrear?—(Sir *Malcolm Ramsay.*) May I answer? We keep a special watch on all these; they were in the middle of the year a little bit in arrear, but we made special efforts, and at the 31st March they were very well up to date.

Sir *Charles Henry.*

3614. Could you, in this period under review, get for the Committee the quantity of coals you received from the Admiralty, and what would have been the approximate market price for that coal?—(Mr. *Bunbury.*) I should imagine there would be no difficulty about that. Of course it depends on the Admiralty; they have to furnish the figure.

3615. Have you not kept any account of the figure of the coals you receive in your Department?—No, we have the figure of the coal consumed by all ships.

3616. But not of the coal received from the Admiralty at all; you get that from the log of the ship, I suppose?—We get what corresponds to the engineer's abstract, which gives the coal received, consumed, and remaining.

3617. You do not keep any account of the actual coals delivered to you for these purposes?—Not as between us and the Admiralty. In addition, of course, there is a certain amount of bunker coal which we buy for ourselves, coal which does not come from Admiralty stocks.

3618. I only refer to what you receive from the Admiralty. If you could get that from the Admiralty it would clear up this?—I think I ought to tell the right honourable member that although coal is perhaps the biggest item it is not the only one.

3619. Could we have the other items?—That means making up a commercial balance-sheet.

3620. Excuse me, I do not want to ask that. Could we have what the other items are, or what proportion those bear to the whole amount?—May I put in a statement explaining the items which it would be necessary to bring into account to convert this into a profit and loss account, giving an approximate idea of the amount of the chief ones?

3621. With special reference to coal. I suppose all the other items that you do not pay for you get from Government Departments as well. Do you get your oils from the Ministry of Munitions?—I think not; the oils are provided by the owners. The charterers provide bunker coal, and they would provide oil fuel if the vessel burnt oil fuel, but not lubricating oils.

3622. You are the charterers?—Yes.

3623. If you could let the Committee have that statement I think it would be desirable?—We will do the best we can.

Chairman.

3624. Mr. Bunbury, the third section of the paragraph say: "As an emergency measure, advances from the Vote of Credit were made directly to the Director of Navy Transports acting as Accounting Officer, but the account is rendered by the Accountant-General to the Ministry of Shipping." The emergency measure did not last?—No, that only applied to the one financial year. This Vote of Credit account was set up on the 1st April, 1916, and by the 1st April, 1917, the Ministry of Shipping had been created with a Vote of its own, so to speak, and I was made Accounting Officer of the Ministry of Shipping. We took over the accounts and liabilities, and so forth, of the Transport Department.

3625. Now could you give us any detail of the shipbuilding, which amounts to 9½ millions?—That is entirely for vessels purchased in America, Japan, Hong Kong, and I think Canada. There may have been one or two other purchases within this financial year from neutral countries.

3626. That is hardly shipbuilding, is it?—In many cases they were contracts which were purchased, and the Shipping Controller as the purchaser had to pay the instalments under those contracts.

3627. Those were contracts for ships which were in course of building?—Yes, and in some cases not even commenced, but about to be commenced.

Sir *Charles Henry.*

3628. When you determine the cost of the ship which you are responsible for building you do not mean to deduct these net receipts from your trading, as you do in this account here?—No, this is purely a cash account.

(*Mr. Bunbury withdrew.*)

MINISTRY OF FOOD.

Mr. S. ALDRIDGE, called in; and Examined.

Chairman.

3629. (To Mr. *Aldridge.*) Referring to the account at the bottom of page 11, for how many months is that account?—A trifle over three—from the 23rd December, 1916, to the 31st March, 1917.

Chairman—continued.

3630. I suppose the Ministry have grown considerably since then?—Considerably.

(*Mr. Aldridge withdrew.*)

NATIONAL SERVICE DEPARTMENT: PUBLICITY CAMPAIGN.

Mr. E. A. SANDFORD-FAWCETT, called in; and Examined.

Chairman.

3631. (To Mr. *Sandford-Fawcett.*) The Publicity Campaign, No. 65 on page 12, is for the whole year, Mr. Fawcett?—No, that would be from the end of December, 1916, when the Ministry was first set up, to the 31st March, 1917.

3632. Three months?—Three months.

Chairman—continued.

3633. Does this include salaries and all expenses?—All expenses in connection with the Publicity Campaign.

3634. Including salaries?—Including salaries, I think.

3635. What salaries were there?—No, I think there were

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

were no salaries. I ought to explain that I was not the Accounting Officer for this period; I have only been Accounting Officer to the Ministry since last September. When I knew that this Inquiry was coming on to-day I telegraphed for Mr. Arthur Collins, who was Accounting Officer to the Ministry for the period in question, and who is now the City Treasurer of Birmingham. Unfortunately he is in bed with influenza, but he will be very glad to come before the Committee any day you would like to have him as soon as he is well. This Publicity Campaign was a scheme approved in effect by Parliament; it was submitted to Parliament by the Prime Minister, and it was approved more or less in effect by Parliament.

Sir *Charles Henry.*

3636. That was the general enrolment which was started by Mr. Neville Chamberlain?—Yes.

Colonel Sir *Herbert Jessel.*

3637. I do not know quite what the Publicity Campaign is; could the Accounting Officer tell me that? Is it all finished? Was it a particular scheme by Mr. Neville Chamberlain?—It was a particular campaign specially authorised by the Prime Minister himself.

3638. It has nothing to do with Lord Beaverbrook's?—Nothing whatever; it was merely for getting the National Service Volunteers. The expenditure consisted of printing posters and putting them up, and that sort of thing.

Chairman.

3639. That is the £41,000?—Yes.

3640. The same thing applies to the rest, the £11,000 for salaries, wages and allowances, and the travelling expenses and incidentals; is it all the same thing really?—No, I think that would be part of the expenditure of the National Service Department itself. There were no salaries in the £41,000, and the £11,000 are expenses in connection with the officers of the Ministry of National Service, nothing to do with the Publicity Campaign.

3641. It also says "including expenses of National Service Volunteers"; how much of that £11,000 is with reference to the National Service Volunteers?—It was very small indeed: there was £163 16s. 3d. for travelling, £7 7s. 5d. for subsistence allowances, and £1 10s. for incidentals.

3642. For the National Service Volunteers?—That is so. At the 31st March the scheme for the enrolment of the Volunteers had only just started.

3643. What was that—the pay of permanent officers in the National Service Volunteers, and so forth?—These would be the actual travelling expenses paid to the Volunteers themselves for moving about; they got subsistence allowance and travelling allowance.

3644. It was started so shortly before the 31st March that these small amounts represent all the travelling of the National Service Volunteers up to that moment?—Yes.

3645. That had come in for payment?—Yes.

3646. I suppose more came into payment the following year?—Yes, in the current year it will be very much heavier, of course.

Colonel Sir *Herbert Jessel.*

3647. I want to go back to the Publicity Campaign; was that only for the printing of posters and things of that kind?—Yes.

Mr. *Leif Jones.*

3648. Did that include the leaflets that were circulated?—Yes, there was a very large number of leaflets and posters.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

3649. Did you pay for them, or did you get them for nothing from the Stationery Office?—They were paid for.

3650. Does the £41,000 include all the leaflets you failed to distribute, but stored in your office?—No doubt the cost of these leaflets would be included.

3651. Did you get a credit for the 60 or 70 tons of paper which were sold afterwards as waste paper?—It was handed to the Sationery Office.

3652. As a gift?—I suppose being a Government Department it is not regarded as a gift exactly.

3653. I understand you paid them a much larger sum?—I do not know that we got the whole of these through the Stationery Office.

Sir *Charles Henry.*

3654. As a matter of fact they were done by outside contract?—If you want details of this, I am afraid I shall have to refer you to the Accounting Officer at the time.

Mr. *McKinnon Wood.*

3655. Could you give me one piece of information: was any large proportion of this paid to the press?—Oh, yes, undoubtedly.

Sir *Charles Henry.*

3656. I do not want to anticipate next year's accounts, but I think the Committee ought to know that this is only part of the Publicity. I think, on the whole, £100,000 was spent on his campaign; is not that so?—Yes.

Mr. *Higham.*

3657. The return of the waste paper and various items will come in the following year, not in this current year?—That is so.

3658. It went on till the end of 1917?—Yes. I can answer a question like that better when I deal with this year's accounts, for which I will be personally responsible. It is difficult for me to answer as to what took place in the past when I was not dealing with it.

Colonel Sir *Herbert Jessel.*

3659. I would like to ask whether that scheme has been abandoned now. What has it been doing after this date, was it still going on?—The Ministry was reconstructed in September, 1917.

3660. This has to do with the whole of the National Service Ministry?—Yes.

3661. All the leaflets which are now being issued?—Those are not included in this account because at the time the Ministry had nothing to do with recruiting; it was only in September, 1917, that the Recruiting Department of the War Office was amalgamated with the old National Service Department.

3662. What will be accounted for next year will be the National Service Ministry?—Yes, as it is now.

(*Mr. Sandford-Fawcett withdrew.*)

Chairman.

3663. (To Sir *Henry Gibson.*) With regard to paragraph 50 on page 24, Sir Henry, you satisfied yourself that it was not possible owing to the incidents of the war to obtain vouchers for those services?—Yes.

3664. Is your correspondence with the Departments on those subjects at an end?—Yes.

3665. Satisfactorily?—I think so.

Mr. *Leif Jones.*

3666. Do I understand, Sir Henry, that you have received accounts of these things in the ordinary form as accounts?—Yes.

3667. The accounts are kept, although not published?—Certainly.

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

Mr. J. A. FLYNN, C.B., recalled; and further Examined.

Chairman.

3668. (To Mr. *Flynn.*) The papers which have been handed in are so full and so interesting that the Committee really have not had time to look through them completely, and I think we will ask you to come again on Tuesday, Mr. Flynn, and we will ask Mr. Hodge to come then also?—Thank you, sir.

Chairman—continued.

(*Mr. Flynn withdrew.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

RELIEF OF DISTRESS, DUBLIN REBELLION.

Sir MALCOLM G. RAMSAY, K.C.B., recalled.

Chairman.

3669. (To Sir *Malcolm Ramsay.*) Referring to paragraph 24 on page 18, Sir Malcolm, can you tell us about the relief of distress owing to the Dublin Rebellion?—Yes, that was immediately after the Dublin Rebellion. The firing was going on in the streets, the military cordon was everywhere, no food came in, and for a short time the Government, working through the soldiers and the Local Government Board, had to provide food to prevent starvation. The people of Dublin, the poor people particularly, got no wages; there were no Old Age Pensioners paid on a particular Friday, and the retail shops were all closed so the Army got hold of food, which was supplied to the hospitals and institutions, and was distributed to people who were destitute to keep them from starving.

3670. It was done through the military, and also through the Dublin Guardians?—It was done mainly through the Local Government Board. There was a Special Committee appointed, Sir Henry Robinson was very active, and got the co-operation of one or two charitable societies also.

3671. You saw what accounts were possible under those circumstances, I suppose?—It has been all accounted for—practically all.

REBELLION LOSSES (IRELAND) COMPENSATION.

Chairman.

3672. (To Sir *Malcolm Ramsay.*) Referring to paragraph 32 on page 20, Sir Malcolm, is that the same kind of thing with regard to property losses?—Those were awards made by a Committee appointed by the Government to assess the compensation for destruction done during the rebellion.

Chairman—continued.

3673. And it is the same thing about the personal injuries in the next paragraph, which is £10,000?—Yes.

3674. You saw all the Accounts of that?—That Committee made recommendations in detail.

3675. Which you approved or modified?—Which we approved or modified. They made recommendations, and gave a list of people with the amounts they recommended. These were scrutinied in the Treasury, and were approved or modified, and then we sanctioned payment, and payment was made through the Irish machinery.

3676. You modified them in the sense of lessening the recommendations, I suppose?—Yes.

3677. Did you ever increase a recommendation?—I cannot charge my memory; I think it is improbable.

3678. That is all that comes under you, I think; there is nothing else for which you answer?—East Coast towns; I do not know whether you passed that.

3679. We did that last time?—Then I think there is nothing else.

(The Witnesses withdrew.)

Tuesday, 2nd July 1918.

MEMBERS PRESENT:

Mr. Arnold.	Mr. Leif Jones.
Sir Hildred Carlile.	Mr. Jowett.
Sir Henry Craik.	Sir Robert Williams
Sir Charles Henry.	

Sir ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., Mr. ROLAND WILKINS, C.B., and Mr. G. L. BARSTOW, C.B., called in; and Examined.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

CONSCIENTIOUS OBJECTORS.

Mr. MALCOLM DELEVINGNE, C.B., called in; and Examined.

Chairman.

3680. (To Mr. *Delevingne.*) Referring to No. 14 on page 8, Mr. Delevingne, can you tell us something about the new rules and what has led up to them, as to conscientious objectors?—There have been several additions to the rules, and the latest alteration has been the scheme for releasing conscientious objectors after they have served for a certain period with industry and good conduct in order that they may take up employment outside the jurisdiction of the Committee.

3681. National employment?—Employment of national importance, yes. That has only come into operation recently and did not at all affect the period referred to here. At an earlier date, a good deal was done to stiffen up the control and discipline of the conscientious objectors in relation to their work and with a considerable amount of success.

3682. That is to say, to prevent slacking?—To prevent slacking, yes.

Sir *Henry Craik.*

3683. Employment under whom; is it under the Government?—No, any kind of employment or under any employer, provided that it is of national importance.

3684. Who judges of its national importance?—The Committee is the final judge of that.

3685. Which Committee?—The Conscientious Objectors' Committee.

3686. Is that a Committee consisting of officials of the Home Office?—It is a Committee appointed by the Home Secretary to run the whole of this scheme for conscientious objectors.

3687. Of whom does the Committee consist?—The Chairman is Mr. Brace.

3688. And the others are officials of the Home Office?—One is an official of the Home Office—Major Briscoe, one of the Prison Commissioners. It is not a branch of the Home Office.

3689. And

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Sir *Henry Craik*—continued.

3689. And this official Committee judges whether the work is of national importance or not, and it may be either in the employment of a private firm or in the employment of the State?—That is so, but it is mainly employment by private firms or private employers.

3690. Can you give me any description of what is considered to be work of national importance?—The Committee have laid down various rules—I do not think I have got them by me, but work in connection with food production, for instance, is regarded as work of national importance.

3691. Have these rules been published in any form?—No.

3692. Is there any objection to their being published if I were to ask the question in Parliament?—I do not think there would be any objection at all.

3693. But they have not been published?—They have not been laid before the House.

3694. What rules the decision—what considerations are taken into account?—It is a little difficult for me to answer that question as I am not a member of the Committee, but I could obtain a statement for the Committee.

3695. Are the firms who employ these people firms who are doing work for the Government?—They may or may not be, but the governing principle is that it must be work of national importance.

Sir *Charles Henry.*

3696. Agricultural for example?—Yes, food production is regarded as work of national importance.

Chairman.

3697. I think you went a little beyond the question, Mr. Delevingne, because I asked what steps had been taken to quicken up the work done by the conscientious objectors and you answered that certain people had been let off or sent out to do different work altogether. I want to know what are the steps that have been taken to quicken up the work of those still in confinement, so to speak, to prevent slacking?—I beg your pardon; I meant that there had been two kinds of alteration—the one to stimulate conscientious objectors to industry and good conduct by holding out the inducement that after a certain period of good work they would be entitled to get their release under this scheme and go into outside employment—that is the one side, and on the other side you have the rules for improving the supervision and discipline, and as far as possible, securing a good day's work out of the conscientious objectors by ordinary administrative methods.

3698. As to the supervision, is it more effective?—Very much more effective.

3699. And is the discipline really administered?—There has been a very great improvement.

3700. Is care taken that the people who are the heads of these various establishments are people who will in fact exercise discipline and take care that any slacking is visited with due punishment?—That has been the aim of the Committee throughout.

3701. And officers are removed where they are proved not to exercise proper discipline?—They have been removed, yes.

Sir *Hildred Carlile.*

3702. There is a reference here to Separation Allowances. Have separation allowances always been made to conscientious objectors under the Home Office since the Committee was set up in the summer of 1916?—Yes, it has been the principle from the start to give separation allowances, but not in every case—only in cases where there was proved necessity.

3703. Naturally, of course, but that has been done, you say, all along?—From the very start, yes.

3704. Are you aware that another Committee, of which I happen to be Chairman, has a very large number, quite as many, conscientious objectors under its control as the Home Office Committee, but that it has never in any single instance given a separation allowance to any conscientious objector?—No, I was not aware of that. What I have stated were the instructions on which the Home Office Committee act.

3705. With reference to these separation allowances, what they amount to, roughly speaking; is there so much for the wife and so much for each child, or how is it done?—It is calculated in the same way as the soldiers' separation allowances.

3706. At the same rate?—The rate may be the same—that is the maximum may be the same.

3707. Do you think the Home Office would take into consideration the fact that a similar number of conscientious objectors have been made to do work of national importance for years without any separation allowances being found necessary?—I could not say.

Sir *Henry Craik.*

3708. Under whose instructions is this allowance paid; you say it is in accordance with instructions?—By instructions I mean the rules laid down by the Home Secretary for the guidance of the Committee.

3709. By the authority of the Home Secretary personally?—Yes.

Sir *Hildred Carlile.*

3710. There is one more remark I would like to make: my honourable friend has just drawn my attention to the fact that the system of payment for the work is different in the two Committees, and of course that does constitute a very serious difference; under the one Committee, the Board of Trade Committee, the rate of remuneration is the current rate, whatever it happens to be, in the particular employment, and that does constitute a difference which I recognise?—Under the Home Office Committee the conscientious objector gets eightpence a day, and if a separation allowance is granted a deduction is made from that payment.

Chairman.

3711. Can you get a statement for this Committee as to the respective value to the conscientious objector of the payment under the Home Office and under the Board of Trade?—You mean the value of the work done.

3712. No, the value of the money they get, because there are two different things—apparently the Board of Trade pay the current rate of wages for the particular employment and give no separation allowance, whereas you pay by no means the current rate, and give separation allowance. I want to find out which is costing the State more?—I could lay before the Committee our arrangements and I could ask the Board of Trade to do the same as to theirs.

3713. You might obtain for us a comparative statement showing which method works out to the better advantage of the State?—Yes.

3714. You will kindly give the effect to the State of both methods?—I will see what can be done, if the Committee wish it.

Sir *Hildred Carlile.*

3715. Am I right that the cost of the Home Office Committee is something over £43,000?—During the period covered by this Appropriation Account it is just over £43,000.

3716. I might state that the cost to the State of the Board of Trade Committee is about £1,100 for the same period for the same number of men—4,000.

Chairman.

3717. You will let us have the statement as soon as you can, Mr. Delevingne?—Yes.

(Mr. Delevingne withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

PURCHASE AND SALE OF WHEAT AND OTHER CEREALS.

Sir HENRY REW, K.C.B., called in; and Examined.

Chairman.

3718. (To Sir *Henry Rew.*) Will you make a statement first of all, Sir Henry?—I do not know whether the Committee would wish me to refer in the first instance to the correspondence which has passed between the Wheat Commission and the Comptroller and Auditor-General.

3719. That is Appendix Paper No. 19, is it not?—Yes, including also the correspondence with the Select Committee on National Expenditure.

3720. With that we have got nothing to do?—Quite so. I presume that a letter which completes the correspondence up to date, which was written to the Chairman of the Select Committee on National Expenditure would not be in order before this Committee?

3721. No?—*It is a subsequent letter to this* correspondence in the Appendix Paper giving the reply.

3722. You can use it as a further part of your correspondence with the Comptroller and Auditor-General?—(Sir *Henry Gibson.*) It is the reply to this letter which is published. (Sir *Henry Rew.*) It is a reply to the letter of the 20th June from Mr. Leif Jones, which is published in the papers circulated to the Committee, and I think if the Committee were reading this paper it would complete the correspondence if I were allowed to read this reply.

3723. Very well?—Mr. Leif Jones, I take it, has no objection?

Mr. *Leif Jones.*

3724. No?—This was addressed by the Acting Secretary to the Wheat Commission to the Chairman of the Select Committee on National Expenditure, and it is dated 25th June: "I am directed by the Royal Commission on Wheat Supplies to acknowledge receipt of your letter of the 25th June, referring to the loss incurred on the wheat reserve held by the Royal Commission under Cabinet instructions. The Royal Commission regret there is still some misunderstanding as to the exact position in relation to this reserve, but as the question is purely one of fact, it should be possible to clear it up. The Vice-Chairman gave evidence before the Committee on the 10th August. At that time the Royal Commission were selling wheat at prices fixed on the 30th March: Though there had been a great rise in values subsequent to that date, they had been instructed, prior to the 9d. loaf decision, not to make a corresponding rise in the selling price. The latest returns available were those of the 1st June" (as a matter of fact that is a typing error for the 12th July), "and on the 12th July, the reserve wheat held amounted, in round figures, to 4,400,000 quarters, and it was estimated that if it was sold at the then current prices, after crediting profit earned on reserve wheat previously sold, the loss would amount to rather over £1,000,000. At that time no decision had been come to, as to the actual price at which wheat should be sold when the 9d. loaf was introduced, but it was roughly estimated that the price would have to be lowered by 6s. a quarter, involving a further loss on the reserve then held, again estimated, very roughly, at £1,000,000. Both these estimates were framed after making allowances for landing charges, storage rent and agency charges involved by placing the wheat into store and subsequently releasing it. It is incorrect to say that the Royal Commission have incurred a loss by storing, for long periods, wheat unfit for long keeping. No such wheat was stored for long periods, but the importation of this low-quality wheat involved extra cost, since it made it necessary to place a considerable amount of wheat in store for short periods, and thus increased the handling charges; nor is it correct to say that any actual loss of wheat was incurred in storage in unsuitable buildings. If the building was so unsuitable as to be likely to cause damage to the grain if kept there for long periods, the wheat was quickly passed again into consumption. This, again, increased handling charges, but the main increased

Mr. *Leif Jones*—continued.

cost was due to increased handling charges involving the necessity of sending wheat to store in places involving additional carriage and where no proper handling machinery was available. In spite of the fact that the total reserves of breadstuffs have increased, the unsold reserve stock of wheat had been reduced to about 1,000,000 quarters by the 1st May last—it now consists of good-quality wheat, and it is, therefore, possible to speak with confidence as to the conditions in which the reserve wheat was turned out. It is, of course, true that putting wheat into store, involves extra charges, it is also true that these extra charges are substantially increased when the reserve is built up rapidly—as was the case in the Spring and Summer months of 1917, but it is the fact that the monetary loss involved in storage of the reserve wheat is negligible in amount compared with the loss by a reduction in the selling price due to the decision to sell wheat under cost price." That, sir, bears on paragraph 37 of the Comptroller and Auditor-General's Report.

3725. Have you seen that letter, Sir Henry?—(Sir *Henry Gibson.*) Yes, I have just got a copy of it, and I may say the trouble has arisen mainly by my reference to what I understood to be the meaning of a phrase used by the National Expenditure Committee, and I think the Chairman, Mr. Leif Jones, has now elucidated the matter and that this correspondence, as far as I am concerned, clears it up. In my Report I assumed that the reference in the National Expenditure Committee's Report was to a probable loss under certain heads. Mr. Leif Jones, in his letter of the 20th June, points out that the loss is under three heads, and the substantial point of difference in my Report is that I made no allowance for the losses under the first head—that is "General Causes (loss between buying and selling prices, cost of handling and storage, accidents, etc.), and attributed the whole loss to the other two heads—viz., "Storing in temporary and often unsuitable buildings," and "The storing of low-grade wheat unfit for long keeping."

3726. In fact your paragraph in your Report was drawn up on a certain understanding of a paragraph in another Report, and that has now been cleared up by the statement of Sir Henry Rew?—I think so, but perhaps I had better leave that for the Chairman of the Sub-Committee of the National Expenditure Committee to deal with. (Sir *Henry Rew.*) May I, on this Report, say one or two words more? I think in this paragraph, as the Comptroller and Auditor-General has said, he was taking his statement largely from the Report of another Committee, but the result of that is, I think, if I may say so with deference, that the reference is a little inadequate and has, at any rate, been used outside in a somewhat misleading way. There is no doubt at all about the facts. The building up of a reserve stock by the Wheat Commission was, as no doubt the Committee are aware, the continuation of a policy which was adopted by the Government as far back as 1914. The Wheat Commission at its institution took over the stock as it then existed from the old Grain Supplies Committee, of which I happened to be the Chairman, which was a Committee set up originally in November, 1914, for the purchase of a small stock of reserve wheat. That Committee naturally came to an end on the establishment of the Royal Commission on the 20th October, 1916. The stock held by that Committee was handed over to the Royal Commission and it amounted at that date to 354,000 tons. As a matter of fact, at that particular moment when it was handed over, valued at the price of the day, it showed a profit of £101,000. The old stock was kept separate from the new stock which was built up by the Royal Commission, and the old stock was, in fact, eventually disposed of. I am sorry that I have to speak about these figures approximately, because the accounts are not yet finally made up, but that original old reserve stock resulted in a profit

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

profit of £600,000, which wound up, as it were, the transactions of the Grain Supplies Committee. Then the Wheat Commission were instructed by Lord Devonport, acting on the authority of the War Cabinet, somewhere about February or March, 1917, to build up immediately, or as quickly as possible, a reserve of wheat amounting to at least three months' supply. It was obvious that that had to be taken in hand at once, and it was obvious that in the then state of the market, especially in North America, that was, if I may say so, an almost hopelessly unbusinesslike proposition from the commercial point of view—to go into the market and forcibly purchase, as it were, at any cost any grade of wheat which could be obtained under conditions which were entirely uncommercial. If I may say so, I think the operation was performed with very considerable skill by the purchasing committee of the Wheat Commission. I had personally no connection with it, but I think the wheat was obtained at prices which, under the circumstances, were extremely moderate. It followed, of course, that to carry out that policy any kind of wheat which was coming along had to be taken whatever its grade, and it so happened that in that particular season there was a very large amount of low-grade wheat, 5's and 6's. No. 5 and No. 6 Manitoba were in very large supplies, and I think I am right in saying almost the most easily obtained. That would not have been the class of wheat which would have been selected to be put into reserve, but the Wheat Commission were not buying for reserve only, they were buying for supplies at the same time, and they built up their reserve on what surplus shipments they could obtain over the current demand of the country. The Committee are no doubt aware that we wanted something round about 100,000 tons a week to keep the country going and consequently it was, to a certain extent, a matter of accident in any particular week how much the Commission could put into reserve and what particular kind they could put into reserve at any particular place. Therefore I venture to think that that cause of loss, which was the initial cause, so to say, of buying at high prices, has been perhaps a little overlooked in the discussions. Then when we talk about low-grade wheat it may be true that, speaking broadly (here I speak on a technical point, of course, with reserve), low-grade wheats are more inclined to go out of condition than higher grade wheats. I do not think that that is accepted by the trade as an axiom. It does not follow that because it is a low-grade wheat, therefore it will go out of condition much sooner, nor, in fact, do I think that that happened to any very great extent. I have had some conversation with the agent who was one of the members of the controlled firm who were acting on our behalf and who were carrying out this business of landing and storing wheat at the moment, and he informs me that as a matter of fact the quantity of wheat which was put into store and went out of condition was extremely small, and that what happened in those cases where it went out of condition was this: It was closely watched, of course, and as soon as the wheat was seen to be going out of condition, it was at once disposed of to the millers, and in bad cases certain allowances in price had to be made because of its lack of condition, but, as the letter which I have just read suggests, the loss under that head really may be described as negligible in comparison with the sums involved. The other point which is mentioned as one of the causes of loss is unsuitable buildings, and there again I think there has been a little ambiguity. I think I may say with confidence that no wheat was put into a warehouse or building which was unsuitable for storing wheat in. They were unsuitable from the commercial point of view. They were in places that nobody in the ordinary way of business would have put wheat. I may perhaps draw on my own experience when I was in charge of the earlier supplies. We had to send wheat which was landed at Liverpool and put it into store at Fleetwood. That was a wholly uncommercial thing to do, because you had to trans-ship it into barge at

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

Liverpool, and take it to Fleetwood. When you got it there the storage accommodation was absolutely suitable, but it, of course, involved extra cost of transshipping from Liverpool to Fleetwood which no one in his senses in a commercial transaction would have undertaken. It is that order of things which has prevailed in dealing with this reserve. The buildings have been, as I say, described as unsuitable, and they were, but I do not think, as far as I am aware, there is any evidence in existence that any particular building in which wheat was placed was the cause by the nature of the building itself, of damage to the wheat. It did involve extra charges and cost in putting the wheat in and out of the warehouse, and that is where a certain amount of the loss has arisen.

Mr. *Arnold.*

3727. So that "unsuitable," in your view, is not the correct word to use?—It is unsuitable in the economic and commercial sense.

3728. Unsuitable means unsuitable. You say that the buildings were placed geographically at a distance from where you would have liked them to be, but they may have been most suitable so far as keeping and capacity went?—In the ordinary course (I have had to follow this for some years), before the war, I think, the largest quantity of wheat I have ever traced any evidence of being stored in this country by the trade is about three million quarters, and that, I believe, overtaxed the ordinary capacity for storage at the ports. Wheat is never stored anywhere else than at the ports in the ordinary way of trade, in the proper silos and granaries at the ports, but where it gets over the capacity of the proper places warehouses are used, and the wheat has to be bagged and put into them. When you have to find storage under present conditions when the accommodation of the ports is very largely congested by other commodities, of course we have to send wheat and store it in inland places.

3729. Your view is that the wheat did not deteriorate in quality owing to the buildings being not sufficiently dry, for instance?—I have no evidence of that, and although I am not prepared to say that an instance may not have occurred, I do suggest that that is not what is meant by the unsuitability of the buildings, nor is it any material factor in adding to the cost.

Chairman.

3730. That is your answer to the paragraph that some of the large wheat reserves had to be stored in unsuitable buildings. Now as to the point that certain grades of wheat were unfit for long keeping, that I understand is also your answer, that the trade, as far as you know, does not acknowledge that certain grades are unfit for long keeping?—This is a point on which I would rather the Committee heard an expert in the grain trade, but from what I have gathered it does not follow that a low-grade wheat is a badly keeping wheat. Broadly speaking, the trade would probably say that a lower-grade wheat is more likely to go out of condition than a high-grade wheat, but I do not think the trade would agree upon that.

3731. The third statement in the paragraph is "the estimate given to the Committee of 'the probable loss under this head on the year's working' being £2,000,000," and the head referred to there appears to be that some of the large wheat reserves had to be stored in unsuitable buildings, and that certain grades of wheat were unfit for long keeping, being low grades of wheat?—I think the Comptroller and Auditor-General realises that "the probable loss under this head on the year's working," which is a quotation from the Report of the Committee on National Expenditure, does include the loss under all heads.

Mr. *Leif Jones.*

3732. As I am the author of the words perhaps I might say that by "under this head" I meant under the head of the wheat reserve which the Wheat Commission were instructed to build up. I understand from you to-day that on the 2nd of December the Wheat

Commission

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

Commission were instructed on a rising market to build up this reserve, and that they had to take what wheat they could get, which was not what they would have chosen if they had had due time in which to purchase the wheat, and they had to store it wherever they could because the possibilities at the ports were exhausted?—That is so.

3733. I only want to dispose of one or two points, Sir Henry. You will remember that the estimate of £2,000,000 was the estimate of the Vice-Chairman of the Wheat Commission?—Yes.

3734. It was admittedly a rough estimate, as there were no exact figures on which to go. However, I must say that I think now you lay less stress than was laid by the Vice-Chairman in his evidence before our Committee on these two heads, the low-grade wheat being stored and put into reserve, which were not suitable for long keeping, and the unsuitability of the building, which, I think, was not confined merely to the locality in which they were placed?—I have not seen a very complete report of the Vice-Chairman's evidence.

3735. There was no verbatim report taken, but that does not matter much provided we clear it up now. Your estimate of the loss under all heads is no longer two millions—and when I say all heads I mean except the forcible selling below the market price—but one million?—I can give the Committee the figures now subject to reserve.

3736. Would that be at the 12th July?—Yes, either at 31st of March, the period dealt with by the Comptroller and Auditor-General, or the 12th July.

3737. The 31st March would be the best date or we might have both.

Chairman.

3738. Give us the 12th July first?—On the 12th July, which is practically the date that is being argued about, there was a profit on the old reserve, but there was a loss on the new reserve up to that date of £1,758,000. The total loss on all reserves, or both reserves, was £1,253,000.

Mr. *Leif Jones.*

3739. You see, a further confusion is that the Wheat Commission, if left with this, no doubt would have made good out of the consumers the loss on the wheat reserve, but that would not do away with the loss on the wheat reserve, and I think that should not be lost sight of?—It was estimated at that moment at the price which had been then realised for wheat of that grade, and of course it was assumed for the purpose of the operation that that was the value of the reserve. Then the Committee are aware that at or about the 31st March instructions were received by the Wheat Commission from the Food Controller that no further increase in the cost of wheat was to be made, and the effect of that is shown because if you value the reserve on the 31st of March there was then a profit of £488,000.

3740. That is on the wheat reserve in this country?—Yes, and I am speaking only of that at the moment.

3741. I think some confusion has arisen in the case of the newspapers, at any rate, through their not realising that, apart from the wheat reserve, the Commission had stores of wheat in all parts of the world which in some of their calculations they supposed would not realise current prices?—I am confining myself here entirely to wheat landed in this country, and I will take the Australian wheat later, if you will allow me.

Chairman.

3742. That is all we want to know?—May I finish that point? As I have said, just about March 31st the Wheat Commission thought the price of wheat ought to be raised, but they were prevented from raising it by the Food Controller; in view, no doubt, of the ninepenny loaf looming in the distance, he thought it undesirable to increase the price of wheat and therefore the price of the loaf at that moment, and the main result of that operation was to show, as at the 12th July, this loss.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones.*

3743. Perhaps I might say this, that the calculations the Vice-Chairman put before us showed that if the stores of wheat held by the Commission were realised at that date, then apart from the wheat reserve in this country they would have made a sufficient profit at the price named to have balanced the loss in the wheat reserve at home, and it was the coming in of the new price which prevented that operation being put through?—Yes.

Chairman.

3744. Now, on paragraph 38 the Comptroller and Auditor-General reports that there was no knowledge yet of any deterioration in Australia; was there any great deterioration in Australia?—There was a certain amount of deterioration. The fact is brought out by the Comptroller and Auditor-General that up to the 31st December, 1917, deterioration or loss of weight or otherwise were for the account of the Australian Government. After the 31st December those risks were for the account of the Wheat Executive. Of course it is to be remembered that all this reserve is not coming to the United Kingdom, but only a share is coming to the United Kingdom. As from 31st December the maintenance of the stacks, because some of it is in stacks still, and damaged by deterioration, is for the account of the Australian Government, and other risks are for the account of the Wheat Executive.

3745. As from the 31st December last?—Yes. There is a further point here. The Commission obtained the sanction of the Treasury in July, 1917, to convert a certain amount of the wheat into flour.

Mr. *Leif Jones.*

3746. That is Australian wheat?—Yes; I am speaking of Australian wheat for the moment. They proceeded to convert the wheat into flour. They sent out Professor Lefroy and Mr. Love, who arrived there on the 1st of January, 1918, and took over the stocks.

3747. Just as a matter of interest, have your Commission succeeded in making the wheat safe or what have they done about it?—The principal danger there is weevil. The money has already been authorised to put up plant, on the advice of Professor Lefroy, for dealing with weevily wheat. That will involve an extra charge on the wheat which is weevily, but we are assured by him (he has just reached England again, but I have not yet seen any detailed report of his) that this will be a perfectly satisfactory process for combating the weevil.

3748. Have you made any estimate of the total loss of wheat up to date?—No, I am afraid I have not got an estimate I could put before the Committee of the total loss. It may interest the Committee to know that there was an original contract of 500,000 tons entered into before the Wheat Commission was set up on the 10th October, and there was a subsequent contract of 3,000,000 tons entered into on the 4th December, and of that total of 3,500,000 tons the total shipped up to date is 1½ millions.

3749. My question is directed to how much remains in Australia?—About 2,000,000 tons.

3750. Does it? How much of that is lost?—Up to the 31st of December the Australian Government were bound to deliver the amount; we took over that amount as from the 31st December. There may be a wastage as from that date, and there will no doubt be.

3751. I put it that there is a wastage?—I think there must be.

3752. A large wastage?—I do not know. The loss of weight is estimated (there is an estimate of the loss of weight) after the 31st December at 4 per cent. per annum.

Chairman.

3753. As to paragraph 39, you say, Sir Henry, that the shortage in the number of bags was not a large one?—(Sir *Henry Gibson.*) No.

3754. As to paragraph 40, is that balance-sheet coming?—(Sir *Henry Rew.*) I am sorry to say that it was rather a sanguine statement that the balance-sheet would

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Chairman—continued.

would be ready in July. I might, perhaps, say that the Commission has been extremely hampered by the difficulty of getting competent staff. At the present moment we are 36 short on our staff in the Accounts Branch alone.

Mr. *Leif Jones.*

3755. Is it not rather a serious thing not to have any trading account?—There is an approximate account, of course.

3756. It is not a finally completed account; this is the 2nd July, 1918?—Yes. Of course the Committee is aware that one of the difficulties of that is the allocation between the Allies, which has to be completed. The allocation is rather a slow process.

3757. I suggest that you should complete your account, leaving that particular one?—Unfortunately it is so intermingled. I put it to the Auditors the other day, and my first point was why not let us have the account for the Wheat Commission as apart from the Wheat Executive, and they assured me that they were bound first to settle up the Wheat Executive accounts for the period.

3758. Do you think that you have materials for making a proper account?—I think so undoubtedly.

3759. You do not think you will be disappointed in that? No, I have every confidence.

3760. Have you had your accounts audited?—We have not had them completely audited; we had, as from last August an auditor accountant who is conducting a sort of current audit of the various accounts from time to time, and recently we have

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Mr. *Leif Jones*—continued.

called in Messrs. Price, Waterhouse and Co., who have been going through the accounts very carefully. I have no complete report from them to refer to.

Mr. *Arnold.*

3761. What steps do you take to make up the shortage in your staff of accountants?—We are always trying to look out; we are always endeavouring to get them, but competent accountants are extremely short.

3762. When you receive an offer of voluntary help from an accountant do you always consider it?—Undoubtedly.

3763. Are you sure?—It is very difficult to be sure about anything in any large establishment, but I should be very glad to know of any offer which has not been carefully considered.

3764. Have you taken on any voluntary helpers as accountants lately; not necessarily chartered accountants, but skilled accountants?—I could not answer that off hand.

Sir *Charles Henry.*

3765. When you are preparing your balance-sheet will you be able to debit your wheat with the freights which have been paid upon it?—Yes.

3766. Do you pay the Ministry of Shipping for the freight on the wheat?—Yes; it is all brought on requisitioned vessels, as you know.

(*Sir Henry Rew withdrew.*)

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916-17.

SIR ARTHUR GRIFFITH BOSCAWEN, a Member of the House, Examined.

Chairman.

3767. (To Sir *Arthur Boscawen.*) The Committee are obliged to you for coming, Sir Arthur. You have read the papers with the evidence forwarded to you?—Yes, I have read a paper put in by Mr. Flynn, who is Director of Finance, and also a paper from the Comptroller and Auditor-General containing certain criticisms of our procedure in certain cases, and I should rather like, if I may, just to make a short statement about our procedure.

3768. If you please?—Mr. Flynn speaks of what is called generosity in the administration pensions, and says that our policy has caused grave concern. I should like to say that I am speaking on behalf of the Minister of Pensions, Mr. Hodge, who is unwell, and I am very sorry he cannot be here in consequence. I have acted under him and under his predecessor, Mr. Barnes, from the commencement of the Ministry, and we have always been in absolute accord as to the policy. Now, so far from their being undue generosity in the administration of pensions, the view we took was that in the past there had been great illiberality.

3769. In the Royal Warrant?—Partly that, and partly in the administration.

3770. May I ask, as a matter of curiosity, when you say illiberality, do you mean that the Royal Warrant was not sufficiently generous towards those affected by it?—I go further; I say there was illiberality in interpretation of the Warrants for the time being, with the result that I believe a great many men whose health had been impaired by service were rejected, and got nothing under the old Warrants, and only got gratuities under the new Warrant. The result was a feeling of discontent and a feeling that those men were being unfairly treated.

3771. Because of the Warrant?—Partly on account of the old Warrants, and partly on account of the way they were administered.

Sir *Charles Henry.*

3772. May I ask what you mean by "in the past"—up to what date?—Up to the time of the taking over of the work by the Ministry of Pensions.

Sir *Henry Craik.*

3773. You ascribe this illiberality to the Statutory Committee?—No, I do not do that; I ascribe it to the character of the Warrants, and the administration, chiefly at Chelsea Hospital, but I ascribe it also primarily to the great change which has come about in the character of the Army. The Administration of Chelsea Hospital and the Medical Boards who examined men on discharge were accustomed to examine men of the old Army. The old Army consisted of picked lives of young men of 18 or 19, all of whom had to pass a severe medical test before they went into the Army. The new Army consists of men of all ages up to 50 now, many of them men of indifferent lives, with a very scanty and a very insufficient examination, and I have not the slightest doubt that lots of men were broken down in training simply through the rigours of training and the great change in their lives in consequence of taking up military service. You got a man of, we will say, 30, 35, or 40, and he was a delicate man. If he had remained in his ordinary occupation he might have gone on comfortably in civil life for years. He went into the Army, and there the conditions were entirely different; very likely a few weeks' service broke him down, and I think that the Army Medical Boards did not sufficiently recognise the great difference in the character of the men they were dealing with.

Chairman.

3774. Do you mean the Army Medical Board in passing men into the service?—I am referring to the Army Medical Boards in invaliding them out and saying "not attributable," when as a matter of fact it was attributable. Perhaps I might be allowed to say that before I was Parliamentary Secretary to the Ministry I was soldiering myself, and for the first 20 months of the war I was commanding a reserve battalion and I had to receive recruits and train them. I must have trained several thousands. Now I am quite sure lots of men who would not have been taken into the old Army were broken down in my battalion through the rigour of the training. I do not mean to say that in my battalion the training was more rigorous than anywhere else, but if a man was marked "A" I put him

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

him through his training. He had physical drill before breakfast, he had to march with the pack; he was accustomed to live in a comfortable house, and instead of that he lived in a tent, and in a few weeks many of them broke down. I think you have got to take that into consideration in pensions administration.

Mr. *Leif Jones.*

3775. Have you got any cases established where the pension would be refused in such a case?—Lots of cases.

3776. Where men were taken in and definitely broke down through the training?—I should say hundreds and thousands of cases.

Sir *Henry Craik.*

3777. "Hundreds and" or "hundreds of" thousands?—Well, I will withdraw thousands and say hundreds.

3778. It was not hundreds of thousands?—No.

Sir *Charles Henry.*

3779. That is before the Ministry was established?—That was before the Ministry was established. Now take what is happening to-day. We set up an Appeals Tribunal. Further evidence is obtained by the Local Committees as to the condition of these men and the causes of their disablement. That evidence goes before the Appeals Board of the Ministry. In a great many cases we give a pension because we are convinced, on further evidence obtained from the man and from his pre-war employer, and so on, that the service really did break him down, although originally we had rejected him. Those who are not taken by our Appeals Board go on to Judge Parry's Tribunal. In two-thirds of the cases which go before Judge Parry's Tribunal, cases are accepted as "attributable" that had previously been rejected, and those are the cases sifted out by our Appeals Boards in the first instance. I am merely saying this to show that although there may have been, as Mr. Flynn states, undue generosity in some cases, these have been cases of error due to conflicting medical opinions, and that in a great many other cases the error has been on the other side, and, speaking generally, I should say that up to the present time we have erred in the direction of being too hard and not too liberal. I would say further, from the financial point of view, that it is a very serious matter. If there is an opinion generally held in the country that we are not treating these men fairly, you will have an agitation which will involve you finally in very much bigger expense, because there will be a demand for a general increase of pensions all round which will entail a very much bigger expense than what is saved by refusing to give a pension in a few cases such as those put forward by Mr. Flynn.

Sir *Henry Craik.*] Before we proceed further I would like just, on a personal point, to bring this before you. I have waited to hear what Sir Arthur Griffith Boscawen has said. I was, as you are aware, a member of the Statutory Committee, and I wanted to ascertain whether there would be any points raised on which I should have any prejudice or feel myself in any way debarred from holding an opinion. I can state plainly that I do not feel there is anything in the action of our Statutory Committee that involves myself or imparts to me any prejudiced opinion one way or another. I feel in agreement with the views which Sir Arthur Griffith Boscawen has put forward, and it is possible, I think, that while I would not be prejudiced the knowledge I gained on the Committee might enable me to form a judgment on some of these points. I wish to put it before you, Sir, as to whether you think I should continue to sit.

Chairman.

3780. Please do: we will be glad of your help. (To the *Witness.*) The difficulty is this, Sir Arthur, that there is a Royal Warrant?—Yes.

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

3781. And we are here to see that no money is taken out of the taxpayers' pockets in excess of that Royal Warrant?—Yes.

3782. That is our position, of course. The Royal Warrant is no doubt a very difficult one to administer. Apparently you have laid down certain rough formulæ or principles upon which the pensions should be administered, some of which, in the opinion of the Accounting Officer, go beyond what the terms of the Royal Warrant themselves would allow, and also I fancy this further difficulty comes up, that those formulæ have not always been the same, and that certain pensions having been awarded under one formula, when the formulæ have been a little bit stiffened up it looks as if those pensions had been wrongly given. The formulæ now being stiffened up, the pensions given under a wider formula do not come under the Royal Warrant. If the later and stiffened formula is the real interpretation of the Royal Warrant, it follows that the earlier and looser formula was in excess of the Royal Warrant, so that it ought to have been altered?—I do not think myself that the formulæ went outside the warrant at all.

Mr. *Leif Jones.*

3783. You accept the position that you are bound by the Royal Warrant?—Certainly. I do not think we have any right to go one inch, and I would be the last person to advocate going one inch beyond the Royal Warrant, and I cannot admit we have done so. I may say perhaps, as explaining my position, that ever since I have been at the Pensions Ministry I have been Chairman of what is called the Advisory Board at Chelsea, and all the really difficult cases which cannot be decided by the ordinary awarders come before the Advisory Board. We go into them most carefully. It is quite true that we give the benefit of the doubt to the man, not of any doubt, but where there is a reasonable doubt. It is quite true in some cases we may have gone too far and made a mistake, but in other cases we have not gone far enough.

3784. If you have gone too far you have acted illegally, have you not?—It is a matter of discretion.

3785. Is it a matter of discretion, and, if so, is it a matter of your discretion?—It is a matter of our discretion.

3786. That is exactly what I want to ascertain. You admit that in some cases you may have gone too far?—I only say we may have done so.

3787. When you say you have gone too far, what do you mean—that you have gone outside the Royal Warrant?—I beg your pardon. I did not say we had gone too far; I said we may have gone too far, which means that when you have got a really difficult case no two people would quite agree, do you see? What I might admit Sir Henry Craik might refuse, and what he might admit I might refuse. We get most difficult cases.

3788. No doubt, but if you make a mistake and go too far, in your own words—if you had done such a thing you have spent public money without proper authority?—Yes, that is true; but it is so difficult, and really if you saw the cases you would know that they are really matters of opinion. You get two medical experts, the one saying "aggravated by service," and the other saying "not aggravated by service." What are you to do?

3789. The Royal Warrant tells you, does it not?—I say that a man of common sense must decide.

Chairman.

3790. May I carry that one step further on? I am putting the hypothetical case that you have gone beyond the Royal Warrant. There is another authority who is the authority upon money—namely, your Accounting Officer?—Yes.

3791. And your Accounting Officer says, "I believe this is outside the Royal Warrant"?—Yes.

3792. It does not matter what the facts were, but he says, "On the evidence I have got I believe this to be outside the Royal Warrant"?—Yes.

3793. What

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

3793. What is the position then?—In some cases we have put the case to the Treasury for decision; in others, when it has been a direct conflict of opinion between the Accounting Officer and myself, we have mutually agreed to put it up to the Minister for his final decision, and he has decided one way or the other.

3794. In other words, it is the duty of the Accounting Officer to get the written authority of the Minister?—Certainly. Mr. Flynn is here, and he has done so.

Sir *Henry Craik.*

3795. I would like to ask some questions. Comparing these Royal Warrants with other minutes more or less analogous, you would say, would you not, that the Royal Warrant leaves a larger measure of discretion than is usual in orders of an analogous kind—it leaves necessarily a certain discretion?—I think so; I think it necessarily leaves a great margin of discretion.

3796. You were aware of the proceedings of the Statutory Committee more or less?—Yes.

3797. You are aware that we had considerable differences of opinion with regard to the interpretation of these Royal Warrants?—Yes.

3798. Some of us held that the Statutory Committee was rather hidebound in its decisions?—Yes.

3799. And the result of that rather narrow interpretation of the Royal Warrant was that considerable discontent was caused?—Great discontent.

3800. Discontent to such an extent that the Government found it necessary to supersede the Statutory Committee?—That is quite true; there would not have been a Ministry of Pensions but for that discontent.

3801. The fact was that many of the Statutory Committee thought their interpretations were too narrow?—Yes, I believe that is so.

3802. That difference of opinion arose from the fact that the Royal Warrant, having an enormous number of complicated facts and circumstances to deal with, could not lay down distinct and precise orders with regard to all cases?—No.

3803. And on the one hand, while a timid authority like the Statutory Committee fell short of the requirements of public opinion, those who superseded the Statutory Committee were likely to interpret it with rather too liberal a view?—I think we have interpreted it far more liberally than either the Chelsea Commissioners or the Statutory Committee, but I am not at all convinced that we are interpreting it too liberally now. It is the considered opinion of my colleagues at Chelsea that even now there are many cases rejected for pension which ought not to be rejected.

3804. And you are aware that on the Statutory Committee there was a very strong opinion which would, if it had been able, have taken action very much like that which you have subsequently taken?—I agree. I think in my administration of the Advisory Board I cannot claim to have been excessively bold; on the contrary, I think I have been very excessively cautious.

Mr. *Leif Jones.*

3805. I would like to ask you a question upon that: it arises out of Sir Henry Craik's examination. I understand from what he says that the Statutory Committee was divided, that some were for what we might call a liberal and general interpretation, and others for a strict interpretation.

Sir *Henry Craik.*] I would call it a narrow interpretation, not strict; I hold that my interpretation was as strict as theirs, but it was more liberal.

Mr. *Leif Jones.*

3806. I gathered also that the narrow interpretation had the majority of the Committee behind it. I understand from you, Sir Arthur, that the Committee would not have been superseded had the minority on the Statutory Committee really been the majority and given that liberal interpretation which you think is due?—That is a very hypothetical question. They were dealing in those days with the old Warrant, and you could hardly compare them with the present Warrants.

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Mr. *Leif Jones*—continued.

3807. It was your own answer?—What I do say is that if the Chelsea Commissioners and the Statutory Committee had taken a rather wider view (I do not say a more strict view, because I consider that the wide view is equally strict in the sense that it is within the Warrant), very likely you would not have had the demand for a Pensions Ministry.

3808. May I carry that one step further? The Pensions Ministry was set up knowing of this difference on the Statutory Committee?—I suppose so; I was in France when it was set up, so that I do not konw.

3809. I should be wrong in thinking that the Pensions Ministry was set up with the definite intention of securing a more generous interpretation?—I think that is certain.

3810. The Ministry was set up in place of the Satutory Committee with the definite intention of giving a more liberal interpretation?—I think that was the intention of Parliament.

3811. Therefore, the Ministry is composed of gentlemen who, from the fact of joining it, are committed to the spirit of generous interpretation rather than of narrow interpretation?—Certainly; I strictly agree to that.

Sir *Henry Craik.*

3812. There were other considerations, of course, as to convenience of administrature which contributed to the change as well?—Certainly.

Sir *Charles Henry.*

3813. Am I right in drawing this conclusion, Sir Arthur, that the fact that these men have been passed fit for military service by medical doctors gives you ground for exercising some liberality, or giving them the benefit of the doubt?—I think so. The position is this: These men are passed in, medically fit; the State by taking them assumes and proclaims that they are fit, and therefore it seems to me to be up to the State to prove when they are sent out of the Army that they have not been made unfit by the Army. Do you see what I mean? They are taken in nominally fit and they go out unfit, so that the presumption is that the Army made them unfit.

3814. They are passed under different medical categories, are they not, as they were before the National Service Department was started—A. B. C. and so on?—Yes, we take that into account. On the Army Form B 178 you get the history of the man as he was on enlistment; his category is put down and all such defects——

Chairman.

3815. Only his category?—No; such defects as he may have are noted.

Sir *Charles Henry.*

3816. Which would be notified by the Medical Officer after his examination?—Certainly; when we deal with his pension we have before us the Form B 178. In the case, we will say, of a C category or Grade 3 man, as they call him now, we should take into account that he was not a fit man, and that he was taken in. The question then would arise——

3817. Therefore you would treat him with less liberality than the A man who was passed as fit and sound?—Certainly; but the question would then arise whether the disability from which he was suffering on enlistment and from which he suffered on discharge had been aggravated or not by service. May I say, as bearing on this, that a rather remarkable fact is that nearly all the difficulty arises in sickness cases. Of course it does not arise in wound cases—there is no doubt about them—but, roughly speaking, 50 per cent. of the discharges are for sickness, and of that 50 per cent. half are rejected for pension, and only get a gratuity; in other words, in the case of half we say "Not attributable," and I do not think, considering that they are all passed in nominally fit, it can be alleged that we are unduly generous when half the sickness cases are rejected for pension. That has been our experience up to the present time.

3818. You

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman.

3818. You said in answer to Mr. Leif Jones just now that the Ministry of Pensions was practically established because the decisions of the Statutory Committee were raising great complaint in the country?—It was more the Chelsea Commissioners.

3819. And that the Ministry of Pensions was established to be rather more generous than the Chelsea Commissioners?—There was a very nasty feeling about.

3820. That being so, are you satisfied that your formulæ, which were laid down to enable you to exercise that generosity, were within the terms of the Royal Warrant or would lead to any excess of the Royal Warrant, and as, after all, the Royal Warrant is the basis of it all, is the Ministry desirous of altering the Royal Warrant so as to come into line with what they think is just towards the men who are suffering, because I must repeat again that our point here is that we have got to see that no money is taken out of the public exchequer that does not come within the Royal Warrant?—I think all the formulæ were within the Royal Warrant, although I think one of them went a little too far. That was a formula initiated by Mr. Hodge, that "where a man is discharged in consequence of medical unfitness for further service it shall be presumed that the cause of his unfitness was due to service unless (a) there is conclusive evidence to the contrary." I think Mr. Hodge himself admits that the word "conclusive" went a little too far.

3821. In fact, it was rather outside the terms of the Warrant?—I do not think it was outside the terms of the Warrant, because I think Mr. Hodge is the interpreter of the Warrant.

3822. Ah?—It is a question of evidence, but I think he almost admits that the proper words would be "good evidence" or "reasonable evidence," rather than "conclusive evidence."

Sir *Charles Henry.*

3823. It was altered?—Exactly; he admitted it, and it was altered.

Chairman.

3824. Mr. Hodge himself is the interpreter of the Royal Warrant, you say?—According to the Royal Warrant he is—according to the words in the Preamble of the Royal Warrant.

3825. And the accounting officer has got nothing to do with it, nor the Treasury?—It says: "Our Minister of Pensions shall be the sole interpreter of this our Warrant." I think those are the right words.

3826. I would like to ask Mr. Barstow what he thinks about that, and if he thinks that puts the Minister above the Treasury and everybody else?

Mr. *Barstow.*] Not at all. The Treasury has written at considerable length to the Minister on the very point, and the correspondence is printed and before the Committee. If the Committee would turn to page 7 of the print and look at the Treasury letter of the 4th May, 1918, relating to the power of the Minister of Pensions in relation to the interpretation of the Warrant they will find the views of the Treasury founded upon what have been for many years the views of the Public Accounts Committee. (Sir *Arthur Griffith Boscawen.*) I am aware that the Treasury do not accept that view.

Sir *Charles Henry.*

3827. May we see the Act?—I am aware that the Treasury do not accept that view, but as a plain man I have never understood what the meaning of the words in the Preamble was. (Mr. *Barstow.*) May I read the paragraph from the Treasury letter in order to enlighten Sir Arthur?

Chairman.

3828. Before you do that, do you happen to know if there is any other Royal Warrant which has the same words in the Preamble?—Yes; those words are taken from the words of the Royal Warrant for Pay in the

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

Army, and the question has repeatedly arisen before the Public Accounts Committee as to what is the meaning of the power of the Secretary of State in regard to the interpretation of the Royal Warrant. The matter is perfectly settled policy, as far as the past decisions of this Committee are concerned.

Sir *Charles Henry.*

3829. As regards the War Office?—As regards the War Office and as regards the constitutional principle involved. (Sir *Arthur Griffith Boscawen.*) I have always contested that view, and I believe Parliament did not intend that when it set up the Ministry of Pensions—I believe Parliament intended a comprehensive Warrant and the Minister of Pensions to be the interpreter of it, provided always that he did not go outside the actual terms of the Warrant.

Chairman.] But apparently, according to the claim that is now made, it does not matter what the terms of the Warrant were, because Mr. Hodge may interpret it as widely as he likes.

Mr. *Leif Jones.*

3830. That is precisely the claim which was made by Mr. Stanhope, the Secretary of State for War in 1889, and it was overruled?—(Mr. *Barstow.*) I should point out that Parliament, in passing the Ministry of Pensions Act, stated nothing about the Minister of Pensions being the interpreter of the Warrant; those are words that come in the Pensions Warrant and not in the Act, and the Pensions Warrant was made by the Minister.

Sir *Henry Craik.*

3831. But approved by Parliament?—Not laid before Parliament. (Sir *Arthur Griffith Boscawen.*) It was discussed in Parliament.

3832. The Warrant must be taken to be the act of the Government as a whole?—(Mr. *Barstow.*) Yes, but to be interpreted in the way that is the settled interpretation of this provision under the former and precedent Warrants.

Sir *Charles Henry.*

3833. Mr. Barstow, this Warrant was issued during the present war; do the same regulations or conditions apply to the Treasury control now as before the war?—On this point, I think, entirely.

3834. Why on this point; why should it be on this point and on so many other points not?—There is nothing in the Vote of Credit or the special arrangements for finance during this war to make any difference on this point. This is a settled doctrine accepted by the Public Accounts Committee in past years.

Sir *Henry Craik.*

3835. What interpretation do you place on the words, Mr. Barstow?—May I read the Treasury letter, which, as far as my office is concerned, must be taken to be the authoritative expression of the views of the Treasury on the point? This is the part of the letter of the 4th May, 1918, to which I refer: "My Lords have considered your statement that Mr. Hodge holds that the powers of interpretation entrusted to him under the Royal Warrant governing these matters give him a very wide margin of discretion in the matter at issue, and that he considers entirely within his powers a ruling to the effect that 'medical unfitness attributable or aggravated by military service' shall be held to cover any medical unfitness which has arisen or become worse during military service, unless there is good evidence that the disability is not due to service or has not been aggravated by it. As this point is one of considerable constitutional and financial importance, they direct me to offer the following observations thereon. The powers of the Minister of Pensions in relation to the interpretation of the Warrant are similar to those of the Army Council in the interpretation of the Royal Warrant for Pay, etc., of the Army. The question of the scope of these powers has been examined more than once in the past by the Public Accounts

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Sir *Henry Craik*—continued.

Accounts Committee of the House of Commons. Treasury concurrence is requisite for the original insertion in the Royal Warrants in question of all rates of pay, allowance or pension, and concurrence implies understanding the rates and the conditions thereof according to a fixed interpretation of them which cannot be altered without breach of faith. In the view of the Treasury, therefore, although the power of the Minister to interpret in every case of ambiguity is paramount vis-a-vis of the officers and men who are dealt with in the Warrants, yet if the ambiguity directly affects public expenditure the Minister ought to submit his interpretation for the concurrence of the Treasury, and if he fails to do so, his interpretation is open to question by the Comptroller and Auditor-General."

Sir *Charles Henry.*

3836. May I ask there, does that mean for special cases about which there is any doubt?—Let me continue, because I think that point is dealt with. "The Minister is not, in their Lordships' view, obliged to submit his interpretation to the Treasury if no doubt arises regarding it. But even though there may be no doubt in his own mind, yet if his interpretation is questioned by a co-ordinate authority like the Comptroller and Auditor-General, it is necessarily doubtful and should be submitted to the Treasury if it affects matters within Treasury jurisdiction. This view has been supported on many occasions by the Public Accounts Committee. I am to refer in particular to their second Report for the year 1898 (Army Vote 14, paragraph 8), in which the following observations are made:—'The Comptroller and Auditor-General acted in accordance with his plain duty to bring to notice any interpretation of a Warrant which may seem to him not to be a natural plain and reasonable interpretation, and which involves the expenditure of any public money. Your Committee . . . emphasise the words of their predecessors in the year 1884' (2nd Report, paragraph 141), that, so far as practicable, the intention of a Royal Warrant according to the simple and ordinary meaning of its language should be acted upon . . . wherever a discretionary interpretation becomes necessary that interpretation should not be opposed to, but in harmony with, the natural meaning, intention and purpose of the Warrant. That there is, in short, a limit to be placed on the power of interpretation, and that where in special cases or in unforeseen circumstances it becomes necessary in any way to deviate from the plain meaning of a Warrant the concurrence of the Treasury should be obtained. . . .' Again, in 1889 (see P. A. Committee, 4th Report, 1889, par. 5), in consequence of the claim made by the Secretary of State, Mr. Stanhope, to apply his undoubted power as 'the sole administrator and interpreter' of the Royal Warrant in such a manner as practically to withdraw from the Treasury its control over the expenditure consequent on his interpretation . . . the Committee felt bound to call attention to the *fact that the claim if conceded to the extent apparently* desired would have relieved the War Office from financial control to an extent without precedent in the position of other Departments (the Admiralty, for instance) in relation to money voted by Parliament. . . . The Public Accounts Committee upheld the views of the Treasury and added (2nd Report, 1892, par. 31), 'The Secretary of State cannot in their opinion claim any greater freedom to disobey rules or to put an unnatural interpretation on them or to make alterations tending to increase expenditure than the Head of any other Department. The point of principle connected with the financial control of the Treasury and the claim of the Secretary of State to be the sole authority in doubtful cases, which while they involve the expenditure of voted money, may be said to depend on the strained interpretation of a Royal Warrant, is one upon which your Committee are not prepared to depart from their clearly defined position.' Their Lordships trust that the Minister will concur generally in the view stated above as to the relations between his powers as expressed in the Warrant and

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Sir *Charles Henry*—continued.

those of the Treasury." That is the passage in that letter which deals with the matter. The Minister of Pensions did not take exception to that in his reply, and may be taken to have accepted that view.

3837. In this case which was referred to in connection with the Secretary of State for War, Mr. Stanhope, did that have to do with pay or pensions?—It related to the officers who had been found guilty in connection with the Jameson Raid in respect of retiring allowances.

3838. That was not a case in which there was any latitude as to discretion; it was almost a flat decision, or decision as to a whole category of officers?—I see no difference in principle between this case and the case of any one man which comes up for decision before the Ministry of Pensions. (Sir *Arthur Griffith Boscawen.*) May I say upon that, sir, that I have no desire to quarrel with the Treasury, but I do not think the Treasury realize the enormous number of very, very doubtful cases that we have every week. I do not think they realize how much we get into trouble over delays. If we were to submit all these doubtful cases to the Treasury every week the delays would be appalling, in addition to which you would be submitting to the Treasury, who are not conversant with pensions administration, points which could be dealt with rapidly by people who are conversant with pensions administration, and therefore if we are to submit all doubtful cases or anything approaching that, it would absolutely destroy the whole efficiency of the machinery. It could not be done. We are dealing now with 5,000 or 6,000 new cases every week of disabled men, and you must realize what a tremendous work that is. This morning I have been on the Advisory Board, and I have dealt with 29 really difficult cases, and it might be held, according to the strict letter of what Mr. Barstow has just read out, that I ought to submit all these cases to the Treasury. It would simply hang up the whole business; it cannot be done. Therefore, we have got to use our discretion to the best of our ability, and I am not prepared to say that we have been unduly generous; on the contrary, I think in many cases we have been unduly ungenerous.

Chairman.

3839. I am afraid from the point of view of this Committee it does not much matter whether you have been ungenerous or not; the point of view of this Committee is that if you have exceeded in any case the terms of the Royal Warrant ——?—I do not think we have; I do not know of one single case.

3840. If, under the strictest interpretation of the Royal Warrant you can be said to have done so——?—I do not know of one single case.

Mr. *Leif Jones.*

3841. I rather understood from what Mr. Barstow said that Mr. Hodge had practically accepted the views put forward by the Treasury? (Mr. *Barstow.*) Mr. Hodge makes no objection in his reply to that letter to those rules or principles which are put to him.

3842. And he accepted the amendment of one interpretation which he had made? (Sir *Arthur Griffith Boscawen.*) Yes; he altered the words "conclusive evidence" to "good evidence."

3843. That makes some difference, I suppose?—I do not think in practice it has made much difference.

3844. That is just what I wanted to know?—I do not think so.

3845. You do not think when "conclusive" was in the interpretation, you gave benefits to cases which you would not have given had "good evidence" been there?—No. I do not think so. The formula was in existence for a very short time and the tradition of being rather hard on the men was so strong that I do not think we broke it down in the short time that the word "conclusive" was in existence.

3846. Do you not see yourself, Sir Arthur, as you give your evidence that your perpetual use of the words "liberal," generous," and "rather hard on the man," implies that there is something in the Warrant which

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Mr. *Leif Jones*—continued.

which brings about all those ends?—No, I cannot admit that.

3847. And therefore you are, as it were, approaching it with a definite view in your mind that you will strain the Warrant in favour of the men?—No, I cannot agree with that, but I think the Warrant gives you a certain amount of discretion, and I think any Warrant must. It is a matter really of interpretation in each case. One man may be biassed, we will say, in favour of the State, another man wishes to be perfectly fair to the man. If you say, "I wish to be perfectly fair to the man," that, I think, is a correct interpretation of my position.

3848. It is not the duty of the Accounting Officer to look at it in that way; fair or unfair does not enter into it, and it is a question of a due payment?—Yes.

3849. Either the payment is due in the view of the Accounting Officer or it is not, and if you strain the Warrant the Accounting Officer is bound to overrule you?—Yes; the Accounting Officer, I may say, is my very good friend, but I disagree with him. I think many of his queries and objections have been baseless.

3850. I hope the Accounting Officer is the very good friend of all Departments, but his business is to watch the administrators, not to be their very good friend. He has to see that the spending which is done on their authority is done in accordance with the law?—Yes, but I do not agree with his interpretation in many cases.

3851. But he is his own interpreter up to the point where it goes to the head of the Department, and more than that, because so much is he his own interpreter that he dare not go against his own judgment in this matter because he is responsible?—Very well.

3852. The only thing which overrides him is the written authority of the head of the Department?—Exactly, and whenever Mr. Flynn has asked that the Advisory Board should put the matter before the Minister I have always done so.

3853. I should think so?—Exactly; what is your complaint, then? What are you driving at?

3854. Mr. Flynn acts on his own responsibility as the Accounting Officer for the Department, on his own judgment and on his own interpretation, and he is bound to do so?—Exactly.

3855. It is not for you to help him to put anything up to the head of the Department; he is bound to go there; he has direct access to the head of the Department with regard to any matter of expenditure which he thinks improper?—But he has not complained.

3856. And nobody short of the head of the Department—I want to put this point to you—in writing can overrule Mr. Flynn's judgment with regard to expenditure in your Department?—I do not think anybody has ever tried to.

3857. But you were suggesting that he came to you and tried to adjust cases?—No; I merely said that when he has questioned cases I have very often disagreed with his objections to them. That is all—no more.

3858. And he has never succeeded in convincing you?—I think he convinced me once and I convinced him three or four times.

Sir *Henry Craik.*

3859. Your view, Sir Arthur, is that the difference of opinion is not as to whether the Warrant is actually interpreted strictly or interpreted generously, but you hold that the Warrant necessarily leaves a very large amount of discretion, and that the Executive Officers of the Department are entitled to exercise that discretion?—Certainly we must.

3860. You do not say, "We are acting generously," and "You are acting too strictly," but you say that the Warrant leaves discretion?—Exactly.

3861. "And it is our duty to exercise that discretion"?—Certainly, and you can exercise it in a liberal spirit or an illiberal spirit.

Chairman.

3862. How far does the Warrant give you a discretion? If the Warrant says that the pensions for a certain thing is to be a certain amount, there is no discretion in that. You need not give it all?—No, I do not think that question ever arises. The whole difference is not on the amounts of pension; it is on the one question of fact whether the man's disablement is or is not attributable to service. It is all over that one question of fact. That depends upon a great many consideraions, and principally upon the findings of the Medical Boards and Medical Advisers. In a great many cases they differ; one Medical Board says "attributable," and the next says "not attributable." One Medical Board says "attributable," and the Medical Department of the Ministry says "not attributable," or *vice versâ.*

Mr. *Leif Jones.*

3863. On Appeal?—On appeal; or sometimes when the case first comes up. Those cases where there is a direct difference of opinion are referred to the Advisory Board, and we (it is a difficult task and a thankless task) give our decisions according to the light of common sense. We judge not merely by medical evidence; we have gone for evidence where we can get it, and we have taken into consideration what the man was doing before enlistment, what the state of his health das before enlistment, and what he is able to do now; and if we find that a man was a regular worker and a good timekeeper before enlistment, and that now he is a complete crock, apart from whatever the Medical Boards may say, there is a very good presumption to suppose that he was broken down as the result of service.

3864. Does the Warrant say at all how you are to find out what the man's state is?—No; it gives no directions.

Sir *Charles Henry.*

3865. Do you consider that the Preamble of the Warrant which we have had read out to us gives the Minister, or those who act for him, a certain degree of lattitude?—I do. (Mr. *Barstow.*) When you say the Preamble of the Warrant, do you mean the interpretation?

3866. I heard the Preamble read out, and I would like to get it repeated?—(Sir *Arthur Griffith Boscawen.*) "Our will and pleasure is that this our Warrant shall except in the case of the Warrant of Her Majesty Queen Victoria, etc., be established and used as the sole authority in the matters herein treated of, and that our Minister of Pensions shall be the sole administrator and interpreter of this our Warrant, and shall be empowered to issue such detailed instructions in reference thereto as he may from time to time deem necessary."

3867. I want to put this to you: supposing that had not been inserted, and that the Minister was not by that Warrant given the power to be the sole interpreter of the conditions of the Warrant, do you think that his task in administering the Warrant would be possible or not?—I do not know what would happen under hypothetical circumstances; but I say this emphatically, that if the Minister had not got some discretion, he simply could not carry out his duties. There would be no object in having a Minister.

Mr. *Jowitt.*

3868. May I ask whether you have looked up those precedents which are referred to in the Treasury Letter?—Yes.

3869. Do they refer to questions of pay which are definite and can be established one way or the other, or do they refer to analogous points, to the points which have to be settled by the Minister of Pensions where it is a matter of discretion?—I do not think they are at all on the same footing as the present questions.

3870. Then may I further ask you, Sir Arthur, whether if it be conceded that the Treasury is to be the final arbiter in this matter, it would not be necessary for the Treasury to have before them the medical evidence and all the other evidence which you yourself and the Pensions Minister have before you to enable them to offer any opinion? Yes; of course they would have to.

3871. It

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Mr. *Jowett*—continued.

3871. It would have to be a retrial or a re-examination of the whole question?—Yes. Of course, there are some instances where we have put the matter to the Treasury, and in that case all the papers, documents and everything else have been forwarded.

3872. May I put it to you whether even the documents tell the full story? Have you not sometimes to go into personal matters?—We never, in awarding at Chelsea, see the man; we could not, the cases are so numerous, but the man may appeal against our award, and if he appeals he goes to his Local Committee, and they interview him; they take evidence and his own statement, and that then comes to us, and we further consider the case in the light of what he has said and the evidence he has produced.

3873. To that at least the Treasury, in order to be competent to come to a judgment so good as that of the Minister of Pensions, would have to go just as carefully into all the evidence as the Pensions Minister himself does?—Yes; they could do nothing without the documents. There are one or two other points I wanted to mention.

Sir *Charles Henry.*

3874. Before you do that, might I ask about the Statutory Committee which you took over? What course did they adopt when they were doubtful as regards the practice? Did they have to go to the Treasury, do you know?—I think you had better ask somebody else. I was only a member of the Statutory Committee at the finish.

3875. Perhaps Mr. Barstow could tell us?—(Mr. *Barstow.*) They were in a more independent position because they had funds of their own. That was their constitutional position.

3876. They had the Patriotic Fund as well?—They had independent funds. I think that is right, sir. I do not remember having any specific case put to us from the Statutory Committee. The Statutory Committee submitted their rules and regulations to the Treasury, and no doubt their Awards Committee decided whether individual cases came within the benefit of those awards or not.

3877. Your opinion is that the Statutory Committee had a freer hand than the Minister of Pensions vis-a-vis the Treasury?—The Statutory Committee were not pension awardens, but they were supplementary; they had a relatively small amount of work to do.

3878. Did not the Statutory Committee in the case of disablement or disability decide what the pension should be?—No; that was Chelsea. (Sir *Arthur Griffith Boscawen.*) Chelsea did it; the Statutory Committee could supplement.

3879. Now, I will take the case of Chelsea. If the Commissioners at Chelsea had awarded pensions upon a liberal scale such as the Ministry of Pensions have been doing at times, what control did the Treasury have over them? (Mr. *Barstow.*) If the Chelsea Commissioners had awarded pensions otherwise than under the Warrant—that is to say, a larger sum—they would have been as liable to be taken up on audit by the Comptroller and Auditor-General. (Sir *Henry Gibson.*) I may say that in the first place their awards were criticised by the War Office itself very often before they came to the Comptroller and Auditor-General. (Mr. *Flynn.*) The War Office did not admit the Chelsea award. (Sir *Henry Gibson.*) The awards were submitted formally by the Chelsea Hospital to the War Office and the War Office criticised them.

3880. My point is this: Was the same supervision exercised by the Treasury over the Chelsea Commissioners as the Treasury now wish to exercise over the Ministry of Pensions?—Certainly. (Mr. *Barstow.*) Certainly. (Sir *Arthur Griffith Boscawen.*) There are two other points I want to mention, Mr. Chairman.

Chairman.

3881. Please do so, Sir Arthur?—One point which the Director of Finance has been very keen about has been cancelling pensions where a wrong award has been given. I think I stated just now that we have never gone outside the Warrant in any particular case. What I meant to say was, not deliberately, but mistakes are made. When you are dealing with 5,000 cases a week, the awarding clerk may make a mistake; he gives a wrong pension, you see. Well, the question has arisen about cancellation, and we have been asked to cancel pensions where mistakes have been made. I fully admit that where a palpable error has been made we must cancel a pension; for example, in the Royal Welsh Fusiliers there are hundreds of Joneses, and we might give a pension to the wrong Jones, and that sort of thing. Obvious errors of that sort may take place. But what we have been asked to do is this: A pension has been given on the advice of our medical advisers at Chelsea. We have now got a new set of medical advisers, and we are asked to reverse our decision on the opinion of our present medical advisers. Now, I say where there is a difference of medical opinion (and Mr. Hodge is very strong upon this point), you cannot say that there has really been an error, and therefore there should be no cancelling. Let me point out one result of adopting this plan of cancelling when there is a difference of medical opinion. I came across a case only this morning where a man was rejected by the Chelsea Commissioners. An appeal was made on his behalf. The case came before Chelsea last year, and the medical officer at Chelsea advised that it might be regarded as "attributable." We wrote the man a letter, and said, "On reconsideration we are glad to be able to inform you that your case can now be regarded as attributable." Now, the present advisers of Chelsea say that that decision was wrong, and that it was not "attributable," and what I now ask is, are we to write to the man and say, "On further reconsideration we are sorry to have to tell you that it was not attributable." Well, that, I say, is reducing the administration to absolute contempt.

3882. How did the case come before the second set of advisers?—I think in these cases they may come in various ways, and there have been a great many of these cases. In this particular one the pension was given for one year, and it came up for renewal. Now, renewal of pensions will take place if the disability still exists. The disability may be greater, in which case the pension would be raised, or it may be less, in which case the pension would be diminished; but the question of attributability, in my opinion, must be settled once and for all, and because it is a case of renewal that is no reason for cancelling the pension because we have said "attributable." It might be that the disability now was less, in which case we could give a smaller pension, but we cannot first say "not attributable," and then "attributable," and then "not attributable." That is reducing the administration to chaos, and the Minister holds very strongly that a pension should not be cancelled for error when the only evidence of the error is a difference of medical opinion. There is another point in connection with that, and that is that in case of error we should not cancel any pension during its currency. We tell a man that he has got a pension for a certain time. It is a mistake perhaps, but he makes his arrangements accordingly. To cut him short in the middle of his time we consider is very hard lines and not fair. I had the case of an officer only the day before yesterday. He was a captain, who was given a pension last December for two years, and the Audit Branch queried it. It went before the Medical Branch, and they said the pension should not have been given; and therefore without a word of warning this poor man received a letter to say that his pension, given in December for two years (he got this letter the week before last), was cancelled, and he would receive no more. He came to me and said that this was impossible, that he had made his arrangements on the understanding that he was to draw this pension for two years, and I took the case up to the Minister, and he has ordered the pension to be restored. That is the sort of difficulty we are confronted with. It may be that we are transgressing the strict accounting rules or the rules of the Treasury, but we have got to deal in a reasonable spirit with these cases, and we hold that

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

that you cannot cancel a pension during its currency without doing a grave injustice and causing an amount of discontent in the country which is out of all proportion to the amount of money that is saved.

3883. But, Sir Arthur, that sort of difficulty is a question that does not concern us here, and what does concern us is that apparently pensions are given without the authority of the Finance Branch—that is to say, a pension is given to a man although precautions have not been taken to send the case up to the Finance Branch first of all?—That has been the rule, and the result has been exceedingly awkward, and we have had audit queries after the man has been notified. Mr. Flynn will correct me if I am wrong.

3884. That is exactly what I am talking about; it seems to me that the man ought not to be notified until the Finance Branch has pronounced upon it?—Mr. Flynn will correct me, but I believe the audit in future is going to take place before the pension is actually awarded; is not that so? (Mr. *Flynn.*) That is so; but the difficulty is that the man has been given a pension on a mistaken medical opinion, governed very often by formulæ, and when the case has come up for re-examination the rules have been revised, and it has been found that he really did not come under them, if rightly understood. It arises from a wrong original medical opinion rather than from non-reference to the Finance Branch to begin with. (Sir *Arthur Griffith Boscawen.*) There is one other point I wanted to refer to which occurs in the paper handed in by the Comptroller and Auditor-General.

Mr. *Leif Jones.*

3885. Before you leave that last point, while I agree that if a pension has been awarded wrongly it cannot be taken back, generally speaking, still, in those cases where you are definitely sanctioning expenditure which is wrongly made, you are bound to have the consent of the Treasury. Do you not take that view, or do you take it that you have, under your arrangements, authority to say, "A mistake has been made in this case, and, that having been made, we cannot undo it, and we shall let it go on"?—I think the best plan would be to have a general agreement with the Treasury on that point. (Sir *Henry Gibson.*) There is a recognised procedure under which they refer to the Treasury and inform them that certain pensions amounting to so much have been granted, and that they cannot be recovered.

3886. It is very important that the Treasury authority should be preserved in these cases; otherwise, as hard cases arise in every department—although they are, no doubt, more numerous in your department than in most—if the department has its own dispensing authority things get into confusion?—(Sir *Arthur Griffith Boscawen.*) What I ask for is a general ruling, or agreement, with the Treasury, that we should deal with these cases in that light. If you suggest that we should refer each case to the Treasury, I say it is practically impossible.

3887. Each case of error?—Yes.

3888. Each case of error?—I should say so.

Chairman.

3889. The point is that where the Minister says "We have granted a pension, and it turns out that it has been granted wrongly," there are not very many of those cases?—I think that in each case of error you might refer to the Treasury; but what do you mean by each case of error? Do you mean cases where there are differences of medical opinion.

3890. In the case you mentioned just now, where a case comes up for review, and the second Medical Board says the pension ought never have been given at all, and that it was a mistake to give it, probably the Minister would say "the pension has been given and we have pledged the honour of the Government to give the pension, and therefore it ought to go on," the duty of the Minister is certainly to report it to the Treasury and get Treasury sanction?—I do not think that is possible. The number of cases in which the medical opinion differ is so large that that is our great difficulty. I never knew two doctors to agree about anything.

3891. We have got your evidence upon that, Sir Arthur.

Sir *Charles Henry.*

3892. The case you cited of the officer was not a difference of medical opinion?—It was. There is one other thing I wanted to mention, and that was a case raised by the Comptroller and Auditor-General; it is the third case.

Chairman.

3893. On what page?—In Appendix Number 17, the third case on the first page. The Comptroller and Auditor-General has objected to our raising a pension of 19s. 3d. to a training allowance of 27s. 6d. a week, because it was held that we had no right to do it, the period of training being in excess of the general rule laid down by the Treasury, limiting it to one year. Now, that case was a very remarkable one. That man lived at Lancaster, and he was unable to go back to his old trade. The Waterloo and Seaforth Local Education Authority offered to train a discharged soldier free without any payment of fees as a teacher in handicraft for two years. He was unmarried, and there were no children, of course, and the amount of payment to be made in respect of training therefore was of the very smallest. It was a very good bargain. We understood from the Treasury that as a general rule we could not give training for more than one year, but that we were not debarred from doing it under special circumstances. We considered this was a special circumstance, and we authorised the training. We thought it was a very good case, and an opportunity not to be missed. The Accounting Officer objected, and I am prepared to say on behalf of the Minister and myself that, looking back upon it, probably we ought to have gone to the Treasury about it, although I do think it came under our discretion because it was a special case. I would like to add this: Training is a very difficult thing to get done, and the men are not very willing to undertake it; it is a most important thing to train these men who cannot go back to their old trades in new trades, and give them a chance. Out of 400,000 discharged men we have only trained 8,000 up to the present, and I am sorry to say it, but the Treasury appear to be very unsympathetic always in matters of training, and I think that this is a very hard case to have turned down. I hope that we may be dealt with more sympathetically in a work which does not cost much money, but which is likely to be productive in the future.

3894. What has training to do with pensions?—It is part of our duty.

3895. No.—I beg your pardon.

3896. I hope you will justify that statement?—I beg your pardon, Mr. Chairman, but by the Act of 1915, which set up the Statutory Committee, one of their duties was the after-care of the discharged sailor or soldier, including his further treatment, training and employment.

3897. Yes, I grant you that; but that was with reference to the Statutory Committee who had private funds for the purpose, and if you choose to apply private funds to training, that is quite a different thing; but this Ministry was not set up to administer private funds.—I beg your pardon, Mr. Chairman, I must differ. The duties of the Statutory Committee were taken over by the Ministry of Pensions by the Act of August last year, and the Statutory Committee operated this principle to some extent, but to a very limited extent, by private funds, but it was principally by public funds. They expended public funds on training, and they had a right to do it, and we took over the same right. Such training is recognised as part of our duty to be paid for out of public funds.

3898. Perhaps you would let me ask Mr. Barstow what is the reason for the Treasury laying down, in the first place, that the period of training in excess of the general rule should be limited to one year, seeing that it is not a matter for the Minister of Pensions to deal with?—This is professional training. (Mr. *Barstow.*) That is because the case was not before the Treasury at all. It was a case in which the Accounting Officer protested that being outside the understanding with the Treasury the case should come before the Treasury, and he was overruled by his Minister. On that point the Treasury has written a letter which is before the Committee, which I should like to direct your attention to. That is the letter of the 26th June dealing with the practice of the Minister of Pensions—for it is becoming a practice—of overruling his Accounting Officer instead of putting the case to the Treasury and getting the Treasury concurrence for the action which he wishes to take when the Accounting Officer points out that it is not in conformity with the existing financial regulations. I do not know, Sir, if you would like me to read that letter, as you have it before you?

3899. No; we have it before us. That is going a little beyond what I want to get at, and my question related to the general agreement arrived at with the Treasury that the period of training should be only one year?—The Minister of Pensions, as Sir Arthur Boscawen said, has authority for providing for treatment and the training of disabled men. In order to carry that out he has made general proposals to the Treasury for payment to the men, while under training, of certain allowances. The general effect of these proposals is that while under training a wounded man with an ordinary pension for disability gets full pension for himself and an allowance for his wife and children, and if he goes into a training establishment only a very small deduction is made from his pension. Those terms were agreed between the Minister of Pensions and the Treasury, and I cannot understand, in passing, how Sir Arthur Boscawen can suggest that the Treasury have dealt with them unsympathetically. They were agreed, and are, as I think you will see, sir, exceedingly liberal for the man. The whole object of the Ministry of Pensions training is to restore the earning power of a man who is disabled from earning his livelihood by the injury which he has received. The Treasury have stipulated in correspondence with the Ministry of Pensions that this training shall be generally for shortish periods and not for very long periods. It is obvious that if there was no limit of time the Ministry of Pensions might choose to make a man a doctor, a barrister, or a clergyman, and give him years of training. That is not the intention, and we suggested one year, and in very special cases two. I think one year is the accepted period; that has been accepted by the Minister. (Sir *Arthur Griffith Boscawen.*) With special exceptions. (Mr. *Barstow.*) There is no controversy between us on the subject at all. The Treasury have also objected, as I said, to professional training of that kind, and pointed out that training for such matters as being a school teacher is less a function of the Ministry of Pensions than it is the function of the Board of Education. In the case which has been referred to, it was a case of quasi-professional training, and it was two years' training. The Minister of Pensions did not give the Treasury an opportunity of discussing the question, but simply overruled his Accounting Officer. (Sir *Arthur Griffith Boscawen.*) May I say upon that that we understood (this is the Minister's position) that in agreeing to give professional training we were not to go beyond one year except in special cases? This appeared to be a very special case; the training was offered free, and therefore no cost was imposed upon the Treasury. The man was offered to be trained as a teacher of handicrafts, which can hardly be described as professional training. It is of a quasi nature, as Mr. Barstow has just said; it is a doubtful case, and we thought this was eminently a suitable case in which to give this training. I have said that I think (and I think the Minister would agree with me) that on reconsideration we should have gone to the Treasury, but, I am bound to repeat it, we have not received very sympathetic treatment in the matter of training. Personally, I object very much to this limitation that we cannot give professional training. I think that when you consider the character of the New Army, it is a great misfortune that you cannot teach some of these fellows something beyond mere trades and handicrafts.

Mr. *Leif Jones.*

3900. But you had agreed?—Provided always—the one basic hypothesis of the whole thing—that the man must be unfit by reason of his disablement to go back to his old trade.

3901. But you had agreed with the Treasury that you would not give training beyond one year?—Except in special cases.

3902. Was it not very odd that you should yourselves interpret this special case without consulting the Treasury? You overruled the Accounting Officer without going to the Treasury?—If you are told you must not do a thing except in a special case, do you not think that you have some right to be the judge of what is a special case?

3903. That depends upon the terms of the contract?—(Mr. *Barstow.*) If I may interrupt, it is not in special cases but in the case of special trades; special trades, being trades in which certain committees had been set up between employers and workmen.

3904. In replying just now, Mr. Barstow, you made a point of the fact that the Minister had overruled the Accounting Officer without going to the Treasury?—Quite so; and in that letter, if you will look at the last paragraph but one, the Treasury say on the general question "there can be no question of the expediency of submitting such cases to financial scrutiny" (that is, the training cases generally) "with a view to seeing whether they fall within what my Lords can only consider the exceedingly liberal general terms agreed with the Minister. They would have thought that the Minister would have been only too anxious to scrupulously observe the understanding between the Treasury and Ministry as set forth in the correspondence, and to consult them on any case pointed out to him as doubtful. Had that course been followed in the case under consideration, my Lords have little doubt that a satisfactory solution could have been reached departmentally."

3905. That is exactly what I should have thought. I thought they would be anxious scrupulously to observe an agreement entered into after some discussion, because there was a difference of opinion; and yet a case arises and the Accounting Officer objects. You, Sir Arthur, say it is a special case; but you do not mention it to the Treasury. (Sir *Arthur Griffith Boscawen.*) I have said, have I not, that I think, on reconsideration, we ought to have done it. I cannot say more.

3906. But you have not added that in all similar cases in future it will be done?—Well, I think it will be done.

3907. Thank you?—I am not the Minister, you know.

3908. I am perfectly aware of that, Sir Arthur?—I mean I cannot pledge my chief on a thing I have not consulted him about, naturally.

3909. I am quite satisfied with the answer.

Chairman.

3910. Do you want to say anything more, Sir Arthur?—No. Might I just look through my papers, to see that I have left nothing out? I do not think I have left anything out.

Mr. J. A. FLYNN, C.B., recalled; and further Examined.

Chairman.

3911. (To Mr. *Flynn.*) Have you got any statement you want to make?—Well, Sir, I had prepared for examination rather than for making a statement; but I think I can say, briefly, what seem to me to be the main

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

main points. Of course, policy is not for the Accounting Officer, and, if I may say so, it seems to me that the question this afternoon has been rather a question of what ought the policy to be than the observance of the policy. The rule as regards accounting laid down by this Committee has been that the policy should be expressed in the Regulations, and not find its expression by breaking them. My point is that the Regulations have been interpreted in such a strained way that, as Accounting Officer, I could not possibly pass a number of cases. I have given what seemed to me to be some very strong instances of that. I do not attach so much importance to them as instances, as because I see every reason to believe that the cases must be very numerous. Now, if the Committee would just look at the examples I have given in enclosure (5a) on page 11, in a number of cases medical officers, in consequence of these instructions given to them, describe cases not, I think, as "attributable," but as cases which should be passed under formulæ; that is to say, they certify them contrary to their medical opinion, and when the cases were examined and judged by the medical opinion, a number had to be disallowed. Under (B) I mention some cases in which it is made particularly clear that that occurred. The medical officer had certified these as aggravated by service. When the cases are put back to him, and he is asked what he means by the certificate, and asked to give his medical opinion in relation to the different formulas which had been in force, which were in force, and which were contemplated, he explains that he passed them because there was no conclusive evidence against them, but that there is good evidence against them, and that the men were given more than the benefit of the reasonable doubt. Now, I put it to the Committee that that shows that I am asked to pass cases on certificates which I cannot rely upon, and which turn out to be not in accordance with the facts. All my experience, and all the experience of my examiners at Chelsea, makes us believe that the number of cases so passed is not small, but very large indeed. When I went over the estimates I found that the estimates for this year were coming out about two and a-half millions more than I could account for. The actuaries also found that the estimates, when they corrected them and went into the facts, were about two and a-half millions more than they had anticipated. I could find no reason whatever for that excess but generosity of administration—that is to say, that the Regulations were being interpreted more liberally than had been assumed, and the actuary tells me that he had assumed a very liberal interpretation. So I want to point out that I cannot regard this question as a small one. Now, I think the example I have described as (G) is really a typical example, the interpretation being such as I, as Accounting Officer, ought not to be called on to go on passing. If the interpretation is to be such, either the judgment should be put in the hands of a tribunal whose decision is not to be audited or the Regulations ought to be altered so as to admit of it. In this instance (G), on page 15, the case had not originally been examined by eyesight experts. The question was whether this particular defect of sight could have been or was caused by conditions on active service. Directly it went to an eyesight expert he considered it would not be. The case is summed up thus by the Senior Medical Assessor: "This belongs to a very rare class of cases where it is possible for an error of refraction to be aggravated by military service (a case of high myopia). Aggravation is therefore possible but not probable. In this case, as it had already been allowed, the benefit of the doubt was given the man, although the doubt was considerable," that is to say that the odds were very greatly against the man, and it had been granted in error. Subsequent minutes are very brief, and perhaps I might read them. I put the case forward to the Minister through the Secretary: "I cannot pass this case except under the Minister's written orders. The pronouncement of the Senior Medical Assessor amounts to saying that the case does not come under

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Chairman—continued.

the warrant in the ordinary meaning of the words; to pass such a case would mean that the warrant becomes meaningless and audit futile. This is case (G) in my statement for the Public Accounts Committee." The Secretary then put it in these terms to the Minister. "Mr. Flynn has asked for your written orders to pass the case of so and so, who has been granted a pension for 60 per cent. disability on account of defective eyesight. According to the weight of the evidence this was not due to nor aggravated by service in the present war. I am inclined to think that it is not a case in which the pension was properly awarded under the warrant, but I do not think it should be cancelled." The Minister ruled: "I concur in your view and authorize payment."

Sir *Charles Henry.*

3912. May I ask one question on that, because this man was discharged from the Army for myopia in September, 1914; did he get a pension when he was discharged then?—No.

3913. His condition was not bad enough for him to get a pension?—It was not due to service.

Mr. *Leif Jones.*

3914. On that same case I want to ask you this: You wrote a letter to the Secretary, as I understand, saying that you could not pass the case without the written authority of the Minister. Is that your customary form of objecting? You a sort of invite the written authority of the Minister in such a case?—I expressed a very strong opinion that to pass it would make the warrant meaningless and audit futile.

3915. Still, you suggest it to those whom you were writing to a way round the business. Have you always done that, or do you simply say, "This appears to me to be outside the warrant, and therefore I cannot sanction it"?—This was perfectly understood to be a test case.

3916. Forgive me; when it is passed on by the Secretary it is passed on with these words: "Mr. Flynn asks you to give your written authority to this payment." That was not what you asked as I understood it?—Although I did not think it necessary to read it, I have noted on the paper against that, "With regard to this first sentence I did not ask for orders to pass the payment."

3917. You see that there is room for misunderstanding there. You are represented in a letter which is written to the Minister, who is probably not familiar with departmental matters, or at any rate with accounting matters, that what you are waiting for is his authority to make payment, whereas what you were really doing was objecting to the payment as being outside the warrant?—I am sure that was merely a verbal defect. The Minister always reads my protests in these cases. This went on as part of the same document to him, after explanations and discussion of the procedure. My point is that it is not consistent with the system of public accounting as it has always been interpreted by this Committee, by the Treasury, and by departments, that the Accounting Officer should habitually have to pass things which are apparently contrary to the wording of the Regulations. The remedy should be, I submit, to alter the Regulations, or to plainly make somebody the final authority to pass, and not audit, the award.

3918. I understand from you that you are not—(and I think this is important)—criticising the policy of the Warrant, although in this case itself it is thought desirable so to do; but you are asking either that the Warrant shall be varied, or that some authority shall be created which shall have full responsibility for such cases?—Yes; I ask that I should not have to pass them under an instrument which I can only read as denying them. I do not think any judge, for example, could read that you would give a pension for disability aggravated by service in a case where it is laid down that all the probabilities are that it was not aggravated by service, and there is only a possibility that it was.

3919. Mr. Barstow, may we know whether the Treasury thoroughly supports Mr. Flynn's view in this matter?

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Mr. *Leif Jones*—continued.

matter?—(Mr. *Barstow.*) Entirely, Sir. The view of the Treasury is that the Warrant should be strictly and fairly interpreted by the Minister.

3920. And that it is not right that a practice should grow up of the Minister overruling the Accounting Officer, such as appears at present to be the case?—Certainly not.

Sir *Charles Henry.*

3921. Do you attach any importance to the Preamble of that Warrant, Mr. Flynn, giving the latitude to the Minister?—(Mr. *Flynn.*) Ever since I have been in the Service the Preamble to Royal Warrants has been in that form, and it has always been distinctly understood that, as laid down by this Committee, that form conferred the power of interpretation between the Minister and an outsider, and not as between the Minister and the Treasury; and that the Preamble does not relieve the Minister from carrying out his understanding with the Treasury. He got the Warrant through the Treasury by putting it in the form it is in, and they, naturally, understood that he would use the words in their ordinary sense.

3922. I want to ask your opinion on this: If Members of Parliament were to see that Warrant, with that Preamble, would not they think that latitude was given to the Minister to deal with pensions with elasticity?—With elasticity, certainly; but I do not think they would think it gave him such elasticity as to give a pension when, according to the medical evidence, distinctly there was not a claim, or practically not a claim.

3923. According to this Preamble, to which I attach a great deal of importance—(I was not on the Public Accounts Committee in 1889, and I knew nothing about it until I heard of it at the present time). It is a case for the Minister to interpret it, since the men had been passed medically fit for the Service before joining the Army. You admit that, do you not, to a certain extent?—In the category he went out in, possibly.

3924. Under those circumstances, if he goes out of the Army deteriorated, or with any serious illness or disease, which has been accelerated, it is for the Minister to interpret to what extent he is entitled to compensation. You do not agree with that?—He would interpret, provided there is no distinct evidence on the other side.

3925. Are there any examples where the Minister has, in any former instances, gone behind the Warrant and used his own interpretation?—I think that is hardly for me to say; but there is one such instance put forward by the Comptroller and Auditor-General. I have endeavoured, after I have put in my protest in this Memorandum, to avoid going on arguing it, and I prefer to leave it to the judgment of the Committee at that point.

3926. I want to ask this final question: When you put in your case, after dealing with your case as the Accounting Officer, you did not consider that the Preamble of the Warrant gave the Minister the latitude which he has adopted?—No; certainly not. I think the ruling of the Public Accounts Committee is to the contrary.

3927. Excuse me; not in connection with the administration of pensions.—Yes; that ruling was given on a pensions case, and I can see no difference whatever in principle. It is well understood, I think, by all accounting officers throughout the Service that that power of interpretation does not mean complete freedom from the Treasury.

3928. What does it mean?—It means the power of interpretation as between the State and the individual.

Mr. *Leif Jones.*

3929. Mr. Barstow has been good enough to express the Treasury view, and I would very much like the Comptroller and Auditor-General to tell us whether he agrees with the Treasury and Mr. Flynn with regard to

MINISTRY OF PENSIONS APPROPRIATION ACCOUNT, 1916–17.

Mr. *Leif Jones*—continued.

these matters?—(Sir *Henry Gibson.*) Certainly; I arrived at my view, and the opinions I have expressed, from the distinct ruling of the Public Accounts Committee, which I consider applies with equal weight to the Ministry of Pensions.

3930. You are of opinion that the same interpretation applies to the Ministry of Pensions as in the case of the Army authorities?—Certainly.

Sir *Charles Henry.*

3931. Do you not think that the Preamble of that Warrant is rather misleading to Parliament?—I don't think so, but it would be quite open for the Committee to suggest that the wording of that Preamble might be reconsidered.

3932. Why was not the wording of the Warrant altered so as to conform with the views expressed by this Committee?—I cannot say. The wording of this Warrant naturally follows that of the similar Warrant for the Army, which is in force at the present time. The powers of interpretation apply in both cases as between the Minister and the individual, and not as between Minister and Treasury.

Mr. *Leif Jones.*

3933. It would be a misrepresentation to suggest that this Warrant was specially worded by Parliament to give special powers to the Minister of Pensions. It was, I understand, in the ordinary course of drafting of Warrants in the office, put in the old form, with no special meaning other than attached to it in the old documents. Am I right there?—That is so; and the Minister of Pensions succeeded to the powers of the Secretary of State for War with regard to pensions.

Sir *Charles Henry.*

3934. My point is that this Warrant, which was issued, I suppose, last year, conveys a wrong impression to Parliament?—(Sir *Arthur Griffith Boscawen.*) May I make one statement on the general question? I am looking at it now purely from the practical point of view of administration. Unless there is a large amount of discretion left to the Minister the work could not be carried on; it would be quite impossible. And further, it was undoubtedly the intention of Parliament, and was proclaimed by Mr. Barnes, who was Minister of Pensions, and by Mr. Hodge, and by myself, that the benefit of the reasonable doubt should be given to a man, and we simply and solely acted upon that. There has been no attempt to go outside the Warrant, and I do not think consciously we have ever done so. Mistakes, I say, may have been made by awarders—that is another matter—and we are always prepared to rectify them. I wish to assure you that we have acted throughout in perfect good faith, and that we were merely exercising the degree of discretion which we think we are bound to have, otherwise we could not carry on the work.

Mr. *Leif Jones.*

3935. I hope, Sir Arthur, you will understand that in my examination and my criticism of the actions of the Minister I am only dealing with the proper interpretation of the Acts of Parliament under which the spending is done by the Financial Officers of the Department. I am not expressing any opinion with regard to whether sufficient discretion is given by the Act to the Pensions Ministry. It may be that there is not—I do not argue the point. All I argue for is that if it is intended that they should have wider discretion than the Accounting Officer has seen his way to allow, such wider discretion should be given to them by Act of Parliament in definite terms.

(The Witnesses withdrew.)

Thursday, 1*st August* 1918.

MEMBERS PRESENT:

Mr. Arnold.
Mr. Haslam.
Mr. Leif Jones.
Mr. Jowett.
Sir Robert Williams.

SIR ROBERT WILLIAMS, BART., IN THE CHAIR.

Sir HENRY GIBSON, K.C.B., called in; and Examined.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1916-17.

Sir THOMAS ROBINSON, K.C.M.G., called in; and Examined.

Mr *Haslam*.

3936. (To Sir *Thomas Robinson*.) With reference to paragraph 16 of the Comptroller and Auditor-General's Report which deals with meat, I understand that the surplus meat beyond the requirements of the Army have been sold throughout the years under review by agents at 2 per cent. commission?—Yes.

3937. The amounts of this meat in the years in question were approximately six and a half million pounds worth in each year?—Is that so?

3938. We have that in evidence?—All *right* if that is so.

3939. Therefore the commission paid at 2 per cent. would amount to about £240,000. That commission was paid on account of their handling the consignments, and it has been given in the papers handed in that there were about twenty-five of these agents, and that they were appointed by the importers of meat, so that if my figures are correct these agents received about £5,000 a year each on account of commission. That may be justifiable, or it may not, and we want to know; therefore, in the first case, I should like to ask you, Sir Thomas, what are the duties of these agents which make it necessary that they should receive £5,000 a year each in order to carry on these transactions?—The 2 per cent. you mention was 2 per cent. when the sales were made in a certain way.

3940. What you call *ex*-store?—The 2 per cent. was charged when the sales were made in a certain way; for instance, if sales were made *ex*-ship, then they got 1 per cent. only, and in cases where any of the agents passed the meat which was entrusted to them for sale by the Government through their own wholesale or retail organisations, they got no commission at all.

3941. According to the papers put in here, none of the agents were paid 1 per cent.; all were paid 2 per cent., as all the meat was sold *ex*-store.

Chairman.] You have got it in the papers that where the agents, as Sir Thomas has said, had their own retail shop they did not get the 2 per cent.

Mr. *Haslam.*] But, as a matter of fact, all the sales were made at 2 per cent.

Chairman.] Then none of these men have retail shops?

Mr. *Haslam.*] It does not necessarily follow; I am perfectly clear upon this point. I have not asked the question whether they had or had not retail shops, but I understand that if they had retail shops or sold to themselves then they forewent their commission. I have not come to that point yet.

Witness.] You wish to know what duties these agents performed?

3942. That is so?—Let me tell you that before that commission was settled the matter was remitted to a Committee consisting of the High Commissioner for New Zealand, Sir Montague Nelson and myself, and we had to take into consideration the wishes of the New Zealand Government as to the manner in which the agencies, which had been established here for the purpose of effecting sales of their meat, were to be treated, because we had to make the purchases through the New Zealand Government, and consequently we had to respect their wishes in this and other matters. Now we succeeded in getting better terms from the agents for the sale of this meat than they would have received if they had been acting on behalf of the producers, growers and shippers of this meat. They had to carry out for the Government the duties which they would have fulfilled for the producers of this meat if they had acted for them instead of for the Government; that is to say, they had to take delivery orders from the Board of Trade, and they had that meat in their custody and under their management for some time.

Mr. *Haslam*—continued.

They had to see to the settlement of all claims, and they had to accept the risk *del credere* of the buyer.

3943. Will you kindly explain what *del credere* means?—Suppose an agent was entrusted by the Board of Trade with 1,000 lambs for sale, it was for him to see that they were sold through the ordinary channels and that he got his money. Any failure on the part of the buyer of the meat to pay the money fell on the agent, and he was bound to give the Board of Trade back the value, whether he ever got the money or not. As you will perhaps know, if you know the meat trade, there were innumerable cases in which there is slight damage, and that involved a good deal of detailed handling as to whether one-sixteenth or one-thirty-second should be allowed, or how many sheep or lambs it should be allowed upon, and there is really a great deal of detail work in connection with that which the agent had to do. He had to see that the delivery of the meat was taken within the period allowed, and then to check from the dates upon which the buyer took possession of the meat which he had bought the charges for refrigeratory storage, and it was for him to see that we were not in any case charged for storage which had not been actually incurred. So that there was a good deal of duty in that way thrown on the agent, and we put somewhat severe conditions upon him in some respects; for instance, we asked that a separate banking account might be kept in respect of the moneys received on behalf of the Board of Trade, so that there was security against the delivery of meat in the shape of the money standing to the credit of the various agents in respect of these sales. There are a great many duties connected with the sale of meat which only those who are acquainted with the trade can understand. The expenses are considerable, and there is room for any amount of loss unless a fairly reasonable payment is made for the services rendered.

3944. On the whole, you are satisfied that the arrangements which were made were satisfactory?—Extremely satisfactory—very satisfactory to the Government.

Mr. *Arnold.*

3945. Was any sliding scale arranged for in case the amount of commission payable should become very large?—No.

Mr. *Haslam.*

3946. The next question I wish to ask, although I can answer it myself, is that I presume the cost price of the meat was from 6½d. to 7½d. a lb.?—The price of the meat at the time it was sold would depend in no small degree on the length of time it had been in store.

3947. I am not talking about the initial cost of the meat; I am asking about it before its being put into store?—There again it varied, for this reason—that the meat was kept in store in New Zealand at the Government expense, and it had to wait in store in New Zealand until tonnage was available to remove it.

3948. We have it in Mr. Barnes's evidence that the meat did cost 6½d. a lb.?—I do not quarrel with that.

3949. And I raised the price to 7½d. in order to be on the *right side*?—I am taking the average.

3950. We were informed that the meat was sold, or intended to be sold, as nearly at cost price as possible?—Yes, that is so.

3951. As a matter of fact we are informed that on the total sales the profit is about 9 per cent.?—I have not got that figure at my disposal, but it would not surprise me if it were so. Did that take into account the reserves that had to be made? Were the reserves included in the 9 per cent., or was it on the actual sales?

3952. The

Mr. *Haslam*—continued.

3952. The agreed statement is that the profits were 9 per cent.?—I do not know that one could definitely say what was the amount of profit.

3953. It is difficult to get these details, I understand. The next question I wish to ask is, have you any knowledge as to whom this meat was sold?—It was a condition imposed upon the agents that they should make a return every week to me showing to whom they had sold every pound of meat, and I have got returns here showing how that information was passed along to us. That was also made available to the High Commissioner for New Zealand, who on behalf of his Government was always taking care that the meat was fairly dealt with, and through approved channels.

3954. Was the meat sold to wholesale people or retail?—The returns show in every case to which individual or to which company it was sold, the number of carcases, the price and all particulars. I have some of the forms here.

3955. Meat being sold at 9 per cent. on the cost price would when sold to the public naturally realise a much higher price?—The theory upon which the sales were made——

3956. Pardon me, but would you mind answering the question. It would realise at retail prices a much higher price?—I cannot accept that, so you must allow me to explain. The theory upon which the sales were made by the Government was this, that in many cases the New Zealand meat and the Australian meat was sold at less than the market price for meat of a similar quality, but there was an understanding as between the sellers and the retailers of the meat and the Government. I met the butchers' organisation several times and made this arrangement with them: that they would average the cost of the meat in their shops from time to time, and although they might make a larger profit on the Australian and New Zealand meat which the Government gave to them, they would take a less profit on the remainder of the meat which they got under less favourable conditions, and on the whole on the average they would not take more out of the public in the way of profit than they would have done if the whole of the meat had cost them one level figure.

3957. May I ask what check you had so as to show that the ideals of the Government were carried out?—We invited the public to let us know any cases where they had any suspicion that that arrangement was departed from.

3958. Are the public able to judge always that the meat is imported meat, or whether it is home-grown meat?—I should say they were from the number of letters we have on the subject.

3959. I have heard to the contrary; I have heard very frequently that meat which is imported has been, shall I say, palmed off as home-grown; at any rate, is it not apparent with regard to this £6,000,000 worth of meat a year, representing, as I believe it does, a month or two months' supply to the United Kingdom, that the Government could hardly expect that they could control the huge number of retailers through whom this meat would pass so as to ensure that the public would get the advantage of the low prices at which the meat was sold by the Government?—I dare say it would be impossible to determine to what extent the intention of the Government was carried out by the retailers, but I do believe that for a considerable time there was an honest attempt on the part of the retailers to give the public the benefit of, if not the whole, a substantial part of the economy which the Government expected to effect by that means. I think, however, as time has passed that sort of self-denial has weakened, and towards the end of the period I should say that the butchers were not playing the game to the same extent that they were in the early stages.

3960. Of course, it is not a difficult thing to estimate the amount of profit which will have been obtained by some one, some persons, or some firms when we consider that the difference between the 6½d. or 7½d. a lb. and the retail price was something approximating 100 per cent.?—How much?

3961. The meat would be sold probably at 1s. 1d. a lb., which was sold originally at 6½d.?—Are you assuming that when the meat was sold at 1s. a lb. it was not

Mr. *Haslam*—continued.

costing the butcher more than 6d.? You say 100 per cent.

3962. It was sold by the agents to certain persons who might have shops of their own, and in that case the profit would go to those purchasing persons?—6d. was not the price for the meat as delivered by the Government to the salesmen.

3963. We will say 7½d. then?—No. Here is a sheet which happens to be before me, 10d., 10½d., 10d., 10d. There is nothing under 10d.

3964. Do you mean that is the price at which it was charged by the Government?—At which it was charged by the Government Agent to the wholesaler.

3965. The profit then would accrue to the Exchequer?—Anything remaining between the cost and that 10d. per lb. would be a profit to the Exchequer.

3966. So that 3d. a lb., or say £3,000,000, would go to the Exchequer during that year?—Yes. Of course the wholesaler's profit would come on to that before it got into the retailer's hands.

3967. I mean the wholesaler might be a retailer, too, but in any case my whole point is this: I want to know why the Government did not give the credit to the Exchequer of a certain amount, 1d., 2d., or 3d., or whatever it might be per lb., so that that profit which was due to the cheaply imported meat should go to the Exchequer rather than to private individuals?—The Government policy was this, sir, that it was the only means which they had at their disposal for controlling the market price for meat other than Australian and New Zealand meat which the public were buying, and so long as there was meat at anything like this price in the market it had a deterrent effect on the price of all the rest, and to such an extent was that perceptible just immediately before the Food Controller took over the charge of the realisation of this meat that the River Plate mutton, which was a free import which the River Plate people handled, was brought down to the level of the Australian and New Zealand prices. It has been as high as 3d. a pound above the Australian and New Zealand meat, but the profit was so great that the Government were able to induce the River Plate people to reduce the price of their meat to the price at which the Government meat of a similar character was then being sold.

3968. That is the natural consequence of putting on the market very cheap goods; they naturally would affect the general price of the whole, that goes without saying; my point is this, that there are certain dealers in this country who deal almost exclusively in imported meat. They purchase under the advantage of the Government contract; they have been able to get that meat at much lower prices than they would otherwise have done. I do not know whether I am right or not, but I think something might have been done, so that the Exchequer might have got the advantage of that price which has gone into the hands of private individuals. Since the Food Controller took this question in hand, they have charged an average of 3d. a pound profit on this meat, thus apparently benefiting the National Exchequer by nearly £3,000,000 a year, provided they are selling as much meat, but I understand they have not sold so much. My point is that I think it would have been a much better thing for the Government to sell this meat through these agents, showing a profit to the Exchequer, than to leave it to the discretion of a number of interested persons to carry out what you might call kindly benevolent intentions towards the poor?—Very well, sir; the Food Controller told the Premier of New Zealand the other day that it was true that the Food Controller was making 3d. a pound, which was spoken of as 25 per cent. profit, on the sale of this Australian and New Zealand meat, and the Premier of New Zealand said, "Well, if we had known that the British Government contemplated doing anything of that kind we should never have sold our meat to them at that price, and if you continue to make that profit we shall ask that the price that we are charging to you for this meat shall be revised."

3969. That is quite a proper proposition, I think, and we probably, in that case, have been able to hand over a considerable sum to the New Zealand Government. I am still not satisfied that real care was taken that the public should get the advantage of this meat

at

Mr. *Haslam*—continued.

at the price, and instead of that it seems to have been left to the individual conscience, you may say, of the meat purveyor to lower prices in consequence of the cheap price at which he bought?—May I say something on that point? I should like to say that, with a view to testing the extent to which the Government intentions were carried into effect, the Board of Trade called for returns from a number of the multiple-shop people, showing what their meat cost them, including the Government meat, what the meat bought from other sources cost, and what they had sold it at, and what the result was, and in all the cases which we have the opportunity of investigating, and there were many, we found that the profits made on the meat during the war period in which the Government meat is dealt with or concerned were less than they had been upon the same quantity of meat in the pre-war period. Several of the multiple-shop keepers very kindly placed the whole of the detail at the disposal of the Board of Trade, and this was tested from time to time, and the result of that test justified us in assuming that in most cases the intentions of the Government were being given effect to by the retailers concerned.

3970. The important point, to my mind, is that, as Sir Thomas has said, one of the difficulties was the arrangement with the New Zealand Government. They sold at a very low price, I suppose, and then they found that our Exchequer was getting the benefit and not the people, which gave them reason for altering their prices. I understand that point has been raised since the Food Controller raised the price?—That is so.

3971. But that does not, to my mind, alter the case, because I think during a war like this the question is that we should benefit the National Exchequer rather than private individuals if we can. The point I wanted to raise was this, that, where sales are made on Government account, the profits, if possible, should accrue to the Exchequer rather than to the private individual. I may say further that in some cases the Government at the present time are commandeering goods and then selling them virtually to the same people at much higher prices.

Chairman.

3972. I think what you are saying rather applies to the proceedings of the Committee on its report than the evidence of Sir Thomas Robinson?—May I say this, Sir, that, after all, the bulk of this meat, which was bought from the Colonial Governments and from the River Plate also, was intended for and was used for Army consumption.

3973. We know that?—If there is going to be a rise in the price paid for this meat, it would not only affect the small proportion of the meat which is available for the public, but it would also increase enormously the price of the supplies for the Army.

Mr. *Haslam.*] It is only about one-ninth that is sold to the public.

Mr. *Arnold.*

3974. On that point of the 2 per cent. commission, do you not think that its revision should have been considered in connection with the great growth of these transactions? In other words, a 2 per cent. commission on £100 is rather different from 2 per cent. commission on £100,000 or £1,000,000. The question I would like to ask, therefore, is, was it in the mind of the Committee that fixed the 2 per cent. that these commissions might become of very great magnitude, in which case, it seems to me, there would be very strong reason for reducing the amount?—It was; the same agents had previously made in connection with the sales they were accustomed to make on behalf of New Zealand shippers in many cases 3 per cent., and in other cases 2½ per cent., and we used the fact that considerable sums of money would be involved in this transaction by way of getting some concession. It was only after considerable negotiation that we ultimately induced them to accept the 2 per cent.

Mr. *Jowett*

3975. With respect to the complaint, if it *is* a complaint, made on behalf of the New Zealand Government, that was that the British Government were making a profit in selling the meat to the people in this country,

Mr. *Jowett*—continued.

did I understand you to suggest that?—Was it a complaint against this country that they were making this profit?

3976. Yes, against the Food Controller?—Yes, the New Zealanders, with great public spirit, said: "That is a fair price for our meat, and we are desirous that the British public should have the benefit of the low price if it can be assured to them."

3977. That is exactly the point I wanted to know about?—They said: "If the British public are not to get the benefit of our cheap meat and the Government are going to make a profit by the sale of it, we want all the circumstances reconsidered."

3978. That is exactly the point I want to bring out; they wanted the consumer, the British public, to get the benefit of the cheap meat?—Yes.

3979. And they are not satisfied that they are having it. Did you take all reasonable precautions to see to it that the British public did get the benefit?—We did.

3980. I am not quite clear upon that point. I would like to know what precautions you had taken?—There were many cases in which butchers who were suspected of having failed to keep the bargain were refused any more supplies.

3981. So far as I understand your evidence, Sir Thomas, it simply rests upon a promise that the dealers would average their prices so as to make only a reasonable profit on their transactions, including their transactions in New Zealand meat, which they got through the Government agency and through other agencies, but was there any precaution taken to get their books, and to see whether they had actually carried out their promise or not?—Yes, precautions were taken.

Mr. *Leif Jones.*

3982. I want to ask a few more questions. I gather that the 2 per cent. commission was really arranged in consultation with the New Zealand Government, practically at the same time at which you fixed the price of the meat?—Practically.

3983. It was a part of one general arrangement with the New Zealand Government and their agents in this country?—Yes. You see the New Zealand interests have been at great expense to build up an organisation in this country for the proper distribution of their meat, and when the war is over the assumption is that those organisations will resume their functions, and the New Zealand Government, in the interests of their producers, were anxious that those agencies, those channels of trade, should be kept alive.

3984. I suppose you would say that, in estimating any one of the terms of this sort of agreement or semi-agreement, they should all be considered together, and not individually—that is, that the low price might balance the high charges on the meat—or, at any rate, it was all one arrangement?—Yes. In some cases, where it might happen that the Army would use an undue proportion of one particular agent's stock, that agent would for the time being be out of business, except that the other agents came to his assistance and fed his channels from some of their stocks so that there was great co-operation and helpfulness as between one agent and another.

3985. Do you know what income these agents made in the year in question—any of the individual agents, or the total of the agents?—I have no knowledge of that.

3986. You do not know whether it was more or less than what they made before the war?—I should say it must have been less, because the Army took so large a proportion of the meat and they only had the residue to sell, and, as I have already told you, in many cases they were accustomed to charge 3 per cent. for their services, whereas they arranged with us only to charge 2.

3987. I gather this meat was bought at about 6½d. a lb?—Yes, I think that is so.

3988. You sell to the Army at cost price?—Yes.

3989. Does that mean that you sell to them at cost price in France or cost price where?—You see, Sir, the time that any particular shipment is kept in store depends upon a variety of things; for instance, at the present moment we may be short of meat, and we hang on to anything we can get, but as a rule it is going out almost as quickly as it comes in. At other times, when we

Mr. *Leif Jones*—continued.

we have built up a reserve for some contingency, a shortage in France or in Italy, we may have to incur a great deal more in the way of warehousing expenditure on this side than at other times. Any irregularity in the price of one shipment as compared with another shipment was so inconvenient for the War Office bookkeeping that we agreed shortly after the war to charge an all-round rate; we estimated on the average what this meat would cost us, and then we charged the War Office an all-round rate, that is an average rate per pound, and it is an agreement between the War Office and the Board of Trade that if the Board of Trade lose by it they shoulder the loss; if the Board of Trade do not lose by it, but make a small profit, that should be for the Board of Trade and not for the War Office.

3990. What do you charge the Army per pound for this meat that you buy originally at 6½d.?—I had better send that figure to you. (Sir *Henry Gibson.*) I have a note here that the issues to the War Office are at £63 a ton, which is equivalent to 6¾d. a pound.

3991. That satisfies me. If you lose on your sales to the Army, do you put it on to the price at which you sell the residue? I presume you do. Supposing you have not charged the Army enough, it means that the balance of your meat which you are going to sell to the public will have cost you more, and if you are to balance your accounts you will have to increase the price of the meat which you sell to the public to make up for what you have lost in selling to the Army. Have you added anything to make up in that way?—No, the account must be a running account, and for this reason. When this meat began to arrive, the ships were chartered at so much per cubic foot of space, while we have to charge the meat at so much per pound, therefore we had to estimate how many pounds of meat would go into so many thousand cubic feet of space. Some meat stows closer than others, some ships stow better than others, some companies pack their meat into the ship's hold better than others. There is all that variation, so that we make our estimate so as to leave a margin. With regard to the losses which we suffered, the Government do not insure their meat, but our instructions were to charge the meat with the cost of insurance, which would be equivalent to the rate which would have to be paid by the Government for insuring a similar risk, and out of that fund which has been accumulated we have to make good our losses, enemy losses, losses from want of condition, and all other causes; so that the estimate can never be exact and it can only be approximate. We may at one period have what looks an ample margin, but if we have a successive loss of three or four vessels our margin is swept away. The figures are so near as between the costs and the reserves which we have made that it is not at this period worth while making any alteration.

3992. At any rate, this meat is originally bought at about 6½d. a pound and sold to the wholesalers, I gather, at about 10d.?—Paying all the intermediate charges before that—quite so.

3993. That 10d. enabled you to realise a profit of 9 per cent.?

Mr. *Haslam.*

3994. The wholesale man got that, did he not?—No.

Mr. *Leif Jones.*] That was the Government profit.

Mr. *Haslam.*] In cases where the selling agents were also wholesalers they received no selling commission for that proportion of the meat.

Mr. *Leif Jones.*

3995. I have got it that the meat gets into the wholesaler's hands at 10d., which is sufficient to give the Government a small profit so as to make it safe?—Yes.

3996. Can you tell me at all—you have not mentioned it, although you said you watched the butchers' books—at what price did the public get this meat which you sold to the wholesalers at 10d.?—I gather that to the 10d. had to be added the wholesalers' profit and the retailers' profit. What did the public

Mr. *Leif Jones*—continued.

get it at, do you know?—We sell by the carcase. Now when that carcase is cut up I could not tell you the price the public pay to the retailer for the different joints. I have, of course, numbers of returns which we have got from these multiple shopkeepers, and if it would interest the Committee I could place these before them, but in those cases they gave us the price at which they sold the various parts of the animal.

3997. Having studied this matter, are you of opinion that they made an unusual amount of profit on the meat?—No, Sir; on the contrary, the butchers tell me that they are making better profits now than they used to. Of course, that is only a statement.

3998. But you are satisfied, having watched the proceedings, and having endeavoured to secure that the public should get the benefit of this cheap meat, that they have got the benefit of it?—For a long time they did; but if you told me that it was the same in the last six months as in the first I should doubt it. I think the butchers gradually fell away, and I would not like to answer for them, as I say, in the same way for the last six months as for the first, but there again the multiple shopkeepers' figures would disprove what I am saying so far as they were concerned. It is quite possible that although a multiple shopkeeper was selling in the same street as a retail butcher the retail butcher might have been doing better than the multiple shopkeeper on the carcase.

3999. I must not bring you up to date, because that would pass our date; but are you still buying this cheap meat under the old arrangement?—Yes.

Mr. *Haslam.*

4000. One more question: As I understand it, in evidence it comes forth that the cost at which you sold was, roughly speaking, 7½d. a lb., and you have told me now in evidence that the selling price wholesale was 10d. a lb.?—That is the price at which the Government sold.

4001. The difference, therefore, I take it, being 2½d. a lb.?—In some cases it showed no profit, and perhaps even a loss, because, owing to the military conditions, we might have had to keep half a dozen cargoes in store so long that the storage amounted to something in excess of what we had estimated; and where a cargo is held unduly I must say we not only incur greater storage expenses, but all the time it is in store it is wasting in weight. Supposing meat loses in weight by merely being kept in store, then, in place of having 1,000 tons to sell, as we should have had if we had sold it within three weeks or a month, if we kept it for three months we would perhaps only have 999 tons to sell.

4002. That would account for the amount paid to the Exchequer being considerably less than would appear according to the figures I have before me?—Yes. According to the way the accounts were kept every ship's transaction was dealt with as a separate entity, so that we could tell by looking through our books which of the ships turned out on the right side, and which turned out on the wrong side.

Chairman.

4003. May I ask you one question. You said you kept a running account of this meat?—Yes.

4004. Therefore you will not know, I suppose, until the end of your operations whether you have got a final balance on the right side or not?—That is so.

4005. Therefore I will not ask you about that. You do not happen to know how your balance stood at the end of 1917?—The balance is on the right side. The percentage—I do not think I will give it to you unless you press me for it—is a small one, and I have an appointment with Sir Albert Stanley to consider now whether we should add a little to some of our cost in view of the somewhat altered circumstances, or whether we should go on as we are going, and hope to come out on the right side.

Mr. *Haslam.*

4006. All the meat in New Zealand is bought by the Government?—Yes.

(The Witnesses withdrew.)

LIST OF APPENDICES.

PAGE

APPENDIX No. 1.
Paper handed in by Mr. Roland Wilkins, C.B., 12th March, 1918 - - - - - - 193

APPENDIX No. 2.
Paper handed in by Mr. Roland Wilkins, C.B., 12th March, 1918 - - - - - - 203

APPENDIX No. 3.
Paper handed in by Mr. Roland Wilkins, C.B., 12th March, 1918 - - - - - - 206

APPENDIX No. 4.
Paper handed in by Mr. Roland Wilkins, C.B., 19th March, 1918 - - - - - - 208

APPENDIX No. 5.
Paper handed in by Mr. Roland Wilkins, C.B., 11th April, 1918 - - - - - - 209

APPENDIX No. 6.
Papers handed in by Sir Sydney Olivier, K.C.M.G., C.B., 11th April, 1918 - - - - 209

APPENDIX No. 7.
Paper handed in by Sir Sydney Olivier, K.C.M.G., C.B., 11th April, 1918 - - - - - 212

APPENDIX No. 8.
Paper handed in by Mr. Roland Wilkins, C.B., 2nd May, 1918 - - - - - - 213

APPENDIX No. 9.
Paper forwarded by Sir Harry Livesey, K.B.E., 25th April, 1918 - - - - - - 217

APPENDIX No. 10.
Paper forwarded by Sir David Shackleton, K.C.B., 25th April, 1918 - - - - - 217

APPENDIX No. 11.
Paper handed in by Sir Alfred Eyles, K.C.B., 18th April, 1918 - - - - - - 219

APPENDIX No. 12.
Paper handed in by Mr. S. Dannreuther, C.B., 30th May, 1918 - - - - - - 220

APPENDIX No. 13.
Paper handed in by Mr. G. L. Barstow, C.B., 4th June, 1918 - - - - - - - 221

APPENDIX No. 14.
Papers handed in by Mr. S. Dannreuther, C.B., 4th June, 1918 - - - - - - 222

APPENDIX No. 15.
Paper handed in by Mr. S. Dannreuther, C.B., 11th June, 1918 - - - - - - 226

APPENDIX No. 16.
Papers forwarded by Mr. J. A. Flynn, C.B., 18th June, 1918 - - - - - - - 227

APPENDIX No. 17.
Paper handed in by the Comptroller and Auditor-General, 18th June, 1918 - - - 244

APPENDIX No. 18.
Papers handed in by Sir Charles Harris, K.C.B., 18th June, 1918 - - - - - - 248

APPENDIX No. 19.
Papers handed in by the Chairman, 27th June, 1918 - - - - - - - - 249

APPENDIX No. 20.
Paper handed in by Mr. G. L. Barstow, C.B., 27th June, 1918 - - - - - - 252

APPENDIX No. 21.
Paper handed in by the Comptroller and Auditor-General, 2nd July, 1918 - - - - 253

APPENDICES.

APPENDIX No. 1.

PAPER handed in by Mr. *Roland Wilkins*, C.B. 12th March, 1918.

1915—1916.

COMPARISON OF AUDITED EXPENDITURE WITH EXCHEQUER ISSUES AND GENERAL ABSTRACT OF APPROPRIATION ACCOUNTS.

(After Audit by the Comptroller and Auditor General, and Review by the Public Accounts Committee of the House of Commons.)

Treasury.
February, 1918.

COMPARISON of AUDITED EXPENDITURE in 1915—1916 with EXCHEQUER ISSUES of that Year.

	Exchequer Issues.	Audited Expenditure (Net).	Audited Expenditure (Net). Less than Exchequer Issues.	Audited Expenditure (Net). More than Exchequer Issues.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
CONSOLIDATED FUND SERVICES	73,488,346 14 1	73,488,346 14 1	—	—
ARMY	15,010 - -	526,712,664 1 9		
ARMY ORDNANCE FACTORIES	—	—		
NAVY	7,009 8 5	205,733,596 17 7		
	22,019 8 5	732,446,260 19 4	14,224,937 10 11	—
CIVIL SERVICES	54,718,000 - -	58,546,526 10 5		
MINISTRY OF MUNITIONS	1,000 - -	222,704,883 15 7		
DITTO (ORDNANCE FACTORIES)	1,000 - -	1,936,526 16 2		
REVENUE DEPARTMENTS	31,276,000 - -	34,856,744 17 10		
NAVAL AND MILITARY OPERATIONS, &C., VOTES OF CREDIT	1,399,652,010 17 6	*420,954,149 15 8		
TOTAL	1,559,158,377 - -	1,544,933,439 9 1	14,224,937 10 11	—

	£ s. d.
* Expenditure shown in Vote of Credit Appropriation Account	1,383,664,732 16 7
Less Excess Expenditure of Army, Navy, and other Votes already included under the respective Votes (see following pages).	962,710,583 0 11
	£420,954,149 15 8

1915—1916.

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, 1915—1916.			Expenditure, 1915—1916.			Differences between Exchequer Grants and Net Expenditure. (Columns 3 and 6.)	
	Estimated Gross Expenditure.	Estimated Receipts in Aid of Grants.	Exchequer Grants.	Gross Expenditure.	Actual Receipts in Aid.	Net Expenditure.	Surpluses.	† Deficits.
	(1.)	(2.)	(3.)	(4.)	(5.)	(6.)	(7.)	(8.)
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Army	18,016,510 – –	18,001,500 – –	15,010 – –	543,187,548 16 7	16,474,884 14 10	526,712,664 1 9	—	526,697,654 1 9
Army (Ordnance Factories)	1,100 – –	100 – –	1,000 – –	—	—	—	1,000 – –	—
Navy	4,518,710 – –	4,501,700 – –	17,010 – –	211,421,914 3 3	5,688,317 5 8	205,733,596 17 7	*	205,716,586 17 7
TOTAL, NAVAL AND MILITARY SERVICES	22,536,320 – –	22,503,300 – –	33,020 – –	754,609,462 19 10	22,163,202 – 6	732,446,260 19 4	1,000 – –	732,414,240 19 4
Civil Services:								
Class I. (For details, *see* pages 197 to 202)	3,996,175 – –	146,105 – –	3,850,070 – –	4,106,428 4 2	131,478 5 3	3,974,949 18 11	343,118 1 10	467,998 – 9
„ II.	5,926,862 – –	1,012,878 – –	4,913,984 – –	6,924,833 9 9	922,731 4 3	6,002,102 5 6	283,692 5 7	1,371,819 11 1
„ III.	5,733,087 – –	704,667 – –	5,028,420 – –	5,418,724 4 3	725,712 15 3	4,693,011 9 –	421,614 5 2	86,205 14 2
„ IV.	21,008,654 – –	22,615 – –	20,986,039 – –	20,587,844 18 9	17,678 6 3	20,570,166 12 6	415,872 7 6	—
„ V.	1,657,225 – –	118,739 – –	1,538,486 – –	1,813,139 12 8	261,249 17 3	1,551,889 15 5	179,079 9 4	192,483 4 9
„ VI.	1,108,849 – –	3,850 – –	1,104,999 – –	1,080,596 19 8	4,179 14 6	1,076,417 5 2	28,581 14 10	—
„ VII.	22,071,558 – –	259,400 – –	21,812,158 – –	20,949,116 2 7	271,126 18 8	20,677,989 3 11	1,134,168 16 1	—
TOTAL, CIVIL SERVICES	61,502,410 – –	2,268,254 – –	59,234,156 – –	60,880,683 11 10	2,334,157 1 5	58,546,526 10 5	2,806,127 – 4	2,118,497 10 9
Ministry of Munitions	2,001,000 – –	2,000,000 – –	1,000 – –	224,309,523 6 5	1,604,639 10 10	2,222,704,883 15 7	—	222,703,883 15 7
Ministry of Munitions (Ordnance Factories)	20,001,000 – –	20,000,000 – –	1,000 – –	22,411,263 13 1	20,474,736 16 11	1,936,526 16 2	*	1,935,526 16 2
Revenue Departments:								
Customs and Excise	2,608,617 – –	94,010 – –	2,514,607 – –	2,665,087 13 10	121,804 17 5	2,543,282 16 5	*27,794 17 5	56,470 13 10
Inland Revenue	2,283,792 – –	10,000 – –	2,273,792 – –	2,087,089 4 8	8,776 8 4	2,078,312 16 4	195,479 3 8	—
Post Office	27,389,181 – –	552,801 – –	26,836,380 – –	30,871,144 5 3	635,995 – 2	30,235,149 5 1	*83,194 – 2	3,481,963 5 3
TOTAL REVENUE DEPARTMENTS	32,281,590 – –	656,811 – –	31,624,779 – –	35,623,321 3 9	766,576 5 11	34,856,744 17 10	306,468 1 3	3,538,433 19 1
Naval and Military Operations, &c. (Votes of Credit)	1,420,000,000 – –	—	1,420,000,000 – –	I 962,710,583 – 11 II 420,954,149 15 8	—	I 962,710,583 – 11 II 420,954,149 15 8	36,335,267 3 5	—
	1,558,322,320 – –	47,428,365 – –	1,510,893,955 – –	2,481,498,987 11 6	47,343,311 15 7	2,434,155,675 15 11	39,448,862 5 –	962,710,583 – 11
Deduct Vote of Credit Expenditure (I) already included under Army, Navy, and other Votes (see Column 8)	—	—	—	962,710,583 – 11	—	962,710,583 – 11	—	962,710,583 – 11
TOTAL FOR VOTED SERVICES	1,558,322,320 – –	47,428,365 – –	1,510,893,955 – –	1,518,788,404 10 7	47,343,311 15 7	1,471,445,092 15 –	39,448,862 5 –	—

Consolidated Fund:	Estimated Expenditure.		Less than Estimate.	More than Estimate.
National Debt Services (a) Inside Fixed Debt Charge	22,055,000 – –	20,338,257 – 7	1,716,742 19 5	—
National Debt Services (b) Outside Fixed Debt Charge	45,030,000 – –	39,911,054 1 4	5,118,945 18 8	—
Road Improvement Fund	525,000 – –	694,395 – 8	—	169,395 – 8
Payments to Local Taxation Accounts, &c.	9,600,000 – –	9,756,850 14 1	—	156,850 14 1
Other Consolidated Fund Services	1,800,000 – –	2,787,789 17 5	—	987,789 17 5
TOTAL OF CONSOLIDATED FUND SERVICES	79,010,000 – –	73,488,346 14 1	6,835,688 18 1	1,314,035 12 2
GRAND TOTAL OF EXPENDITURE		1,544,933,439 9 1		

* Excess Votes taken in June and July 1917, in order to apply in aid of Expenditure the Excess Receipts on—

Navy ... £1,186,617 5 8

Ministry of Munitions (Ordnance Factories) ... 474,736 16 11

(See House of Commons Papers, Nos. 89 and 98 of 1917).

‡ Surplus of Receipts in Aid over Estimate.

† Met from the Vote of Credit.

The Sums written off from EXCHEQUER GRANT ACCOUNTS together with the sums paid to the EXCHEQUER, in respect of SAVINGS on VOTES and APPROPRIATIONS-IN-AID realised in excess of Estimate, for the Year 1915–1916, amounted to £39,448,862 5s. 0d.

	In the financial year.	
	1916-17.	1917–18.
	£ s. d.	£ s. d.
Written off from Exchequer Grant Accounts out of Ways and Means of 1915—16	2,188,426 2 7	—
Ditto - - ditto - - ditto - - - 1916—17	37,178,270 1 2	—
Ditto - - ditto - - ditto - - - 1917—18	—	9,107 19 6
Paid to the Exchequer by the Paymaster-General	73,058 1 9	—
	39,439,754 5 6	9,107 19 6

	£ s. d.
TOTAL SURPLUSES AS ON PREVIOUS PAGE (COLUMN 7)	39,448,862 5 0

CIVIL SERVICES
1915—1916.

ABSTRACT STATEMENT showing the APPROPRIATION of GRANTS and RECEIPTS in AID of GRANTS, for the undermentioned CIVIL SERVICES, after Audit by the Comptroller and Auditor General, and Review by the Public Accounts Committee of the House of Commons, for the Year ended 31st March, 1916; and the Amounts of the UNEXPENDED BALANCES or DEFICIENCIES arising upon the same.

No. of Vote.	SERVICE.	Reference to detailed Account in Parliamentary Paper, No. 9 of 1917.	Grants and Estimated Receipts, 1915-1916.			Expenditure, 1915-1916.			Differences between Exchequer Grants and Net Expenditure.	
			Estimated Gross Expenditure.	Estimated Receipts in Aid of Grants.	Exchequer Grants.	Gross Expenditure.	Actual Receipts in Aid.	Net Expenditure.	Surpluses.	†Deficits.
			(1.)	(2.)	(3.)	(4.)	(5.)	(6.)	(7.)	(8.)
	CLASS I. PUBLIC WORKS AND BUILDINGS.	Page.	£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1	Royal Palaces	10	68,280 – –	3,030 – –	65,250 – –	61,158 6 10	2,452 6 8	58,706 – 2	6,543 19 10	—
2	Osborne	13	12,850 – –	2,200 – –	10,650 – –	13,999 2 11	614 19 5	13,384 3 6	—	2,734 3 6
3	Royal Parks and Pleasure Gardens	15	134,400 – –	13,000 – –	121,400 – –	115,310 12 10	14,735 1 10	100,575 11 –	20,824 9 –	—
4	Houses of Parliament Buildings	18	74,420 – –	420 – –	74,000 – –	60 012 14 4	604 17 4	59,407 17 –	14,592 3 –	—
5	Miscellaneous Legal Buildings, Great Britain.	21	58,680 – –	680 – –	58,200 – –	52,528 5 9	838 9 6	51,689 16 3	6,510 3 9	—
6	Art and Science Buildings, Great Britain	25	101,150 – –	1,350 – –	99,800 – –	73,056 6 11	1,083 10 5	71,972 16 6	27,827 3 6	—
7	Diplomatic and Consular Buildings	28	89,115 – –	2,345 – –	86,770 – –	77,636 8 6	2,532 4 1	75,104 4 5	11,665 15 7	—
8	Revenue Buildings	32	795,710 – –	7,710 – –	788,000 – –	676,298 1 2	5,071 5 1	671,226 16 1	116,773 3 11	—
9	Insurance and Labour Exchange Buildings, Great Britain.	58	229,330 – –	2,530 – –	226,800 – –	156,313 6 3	2,498 2 4	153,815 3 11	72,984 16 1	—
10	Public Buildings, Great Britain	68	867,600 – –	24,000 – –	843,600 – –	1,198,297 11 9	33,082 8 –	1,165,215 3 9	*9,082 8 –	330,697 11 9
11	Surveys of the United Kingdom	82	194,120 – –	19,200 – –	174,920 – –	298,136 16 –	21,417 6 5	276,719 9 7	*2,217 6 5	104,016 16 –
12	Harbours under the Board of Trade	84	26,687 – –	3,600 – –	23,087 – –	25,964 19 8	2,973 1 7	22,991 18 1	95 1 11	—
13	Peterhead Harbour	85	32,000 – –	—	32,000 – –	19,818 10 10	—	19,818 10 10	12,181 9 2	—
14	Rates on Government Property	86	915,040 – –	32,040 – –	883,000 – –	945,589 9 6	34,899 12 9	910,689 16 9	*2,859 12 9	30,549 9 6
15	Public Works and Buildings, Ireland	88	314,585 – –	34,000 – –	280,585 – –	267,302 17 11	8,674 19 10	258,627 18 1	21,957 1 11	—
16	Railways, Ireland	98	50,008 – –	—	50,008 – –	48,270 4 10	—	48,270 4 10	1,737 15 2	—
17	Mall Approach Improvement	102	32,000 – –	—	32,000 – –	16,734 8 2	—	16,734 8 2	15,265 11 10	—
	TOTAL		3,996,175 – –	146,105 – –	3,850,070 – –	4,106,428 4 2	131,478 5 3	3,974,949 18 11	343,118 1 10	467,998 – 9

ABSTRACT STATEMENT showing the Appropriation of Grants, &c., for the Year ended 31st March, 1916—*continued*.

No. of Vote.	SERVICE.	Reference to detailed Account in Parliamentary Paper, No. 9 of 1916.	Grants and Estimated Receipts, 1915-1916			Expenditure, 1915-1916.			Differences between Exchequer Grants and Net Expenditure.	
			Estimated Gross Expenditure.	Estimated Receipts in Aid of Grants.	Exchequer Grants.	Gross Expenditure.	Actual Receipts in Aid.	Net Expenditure.	Surpluses.	†Deficits.
			(1.)	(2.)	(3.)	(4.)	(5.)	(6.)	(7.)	(8.)
	CLASS II. SALARIES AND EXPENSES OF CIVIL DEPARTMENTS.									
	United Kingdom and England.		£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1	House of Lords Offices	106	44,285 – –	8,500 – –	35,785 – –	43,899 17 11	10,602 6 –	33,297 11 11	2,487 8 1	—
2	House of Commons	108	318,649 – –	10,000 – –	308,649 – –	286,475 2 7	10,288 4 –	276,186 18 7	32,462 1 5	—
3	Treasury and Subordinate Departments	110	118,913 – –	3,368 – –	115,545 – –	130,453 9 4	3,894 17 10	126,558 11 6	*526 17 10	11,540 9 4
4	Home Office	114	275,219 – –	8,050 – –	267,169 – –	279,971 15 –	8,592 13 5	271,379 1 7	*542 13 5	4,752 15 –
5	Foreign Office	118	71,913 – –	1,500 – –	70,413 – –	88,626 12 3	15,497 17 6	73,128 14 9	*13,997 17 6	16,713 12 3
6	Colonial Office	120	61,410 – –	—	61,410 – –	61,783 9 10	—	61,783 9 10	—	373 9 10
7	Privy Council Office	122	12,633 – –	2,400 – –	10,233 – –	12,382 18 7	2,419 10 –	9,963 8 7	269 11 5	—
8	Board of Trade	123	405,241 – –	26,692 – –	378,549 – –	434,699 8 9	31,201 2 9	403,498 6 –	*4,509 2 9	29,458 8 9
9	Mercantile Marine Services	130	210,246 – –	65,575 – –	144,671 – –	180,758 9 5	67,996 11 6	112,761 17 11	31,909 2 1	—
10	Bankruptcy Department of the Board of Trade	133	108,701 – –	108,690 – –	11 – –	92,162 1 –	92,162 1 –	—	11 – –	—
11	Board of Agriculture and Fisheries	137	661,000 – –	269,252 – –	391,748 – –	558,174 2 9	190,421 14 –	367,752 8 9	23,995 11 3	—
12	Charity Commission	149	30,931 – –	—	30,931 – –	28,442 3 5	—	28,442 3 5	2,488 16 7	—
13	Government Chemist	150	26,397 – –	—	26,397 – –	26,158 13 5	—	26,158 13 5	238 6 7	—
14	Civil Service Commission	151	51,273 – –	—	51,273 – –	41,466 1 9	—	41,466 1 9	9,806 18 3	—
15	Exchequer and Audit Department	152	69,534 – –	3,152 – –	66,382 – –	69,310 – –	3,152 – –	66,158 – –	224 – –	—
16	Friendly Societies Registry	153	22,936 – –	—	22,936 – –	21,502 13 –	—	21,502 13 –	1,433 7 –	—
17	Local Government Board	155	367,391 – –	5,600 – –	361,791 – –	382,355 12 2	5,979 18 –	376,375 14 2	*379 18 –	14,964 12 2
18	Board of Control, England	159	114,633 – –	1,030 – –	113,603 – –	75,136 9 7	2,329 4 10	72,807 4 9	40,795 15 3	—
19	Mint	161	163,263 – –	163,200 – –	63 – –	158,506 10 8	158,506 10 8	—	63 – –	—
20	National Debt Office	163	16,141 – –	2,738 – –	13,403 – –	18,661 8 11	2,763 11 6	15,897 17 5	*25 11 6	2,520 8 11
21	Public Record Office	165	25,981 – –	—	25,981 – –	25,207 17 8	—	25,207 17 8	773 2 4	—
22	Public Works Loan Commission	166	11,956 – –	4,740 – –	7,216 – –	10,759 4 7	7,943 15 9	2,815 8 10	4,400 11 2	—
23	Registrar-General's Office, England	167	58,601 – –	11,350 – –	47,251 – –	60,471 – 2	13,721 16 4	46,749 3 10	*2,371 16 4	1,870 – 2
24	Stationery and Printing	169	1,206,657 – –	175,000 – –	1,031,657 – –	2,492,486 1 8	202,323 12 3	2,290,162 9 5	*27,323 12 3	1,285,829 1 8
25	Office of Woods, Forests, and Land Revenues, &c.	173	23,346 – –	—	23,346 – –	21,406 19 7	—	21,406 19 7	1,939 – 5	—
26	Office of Works and Public Buildings	174	159,500 – –	—	159,500 – –	145,509 1 8	—	145,509 1 8	13,990 18 4	—
26A	Privy Seal Office	176	1,693 – –	—	1,693 – –	—	—	—	1,693 – –	—
27	Secret Service	177	400,000 – –	—	400,000 – –	398,697 19 10	—	398,697 19 10	1,302 – 2	—
	Scotland.									
28	Office of the Secretary for Scotland	178	18,931 – –	1,510 – –	17,421 – –	21,497 4 4	1,712 – –	19,785 4 4	202 – –	2,566 4 4
29	Board of Agriculture, Scotland	180	109,413 – –	42,860 – –	66,553 – –	86,406 – 11	21,889 12 5	64,516 8 6	2,036 11 6	—
30	Fishery Board for Scotland	186	22,491 – –	1,461 – –	21,030 – –	19,863 17 5	1,380 8 9	18,483 8 8	2,546 11 4	—
31	General Board of Control for Scotland	188	19,463 – –	528 – –	18,935 – –	15,800 17 10	537 – 9	15,263 17 1	3,671 2 11	—
32	Registrar-General's Office, Scotland	189	7,911 – –	1,200 – –	6,711 – –	8,044 5 3	1,184 11 –	6,859 14 3	—	148 14 3
33	Local Government Board for Scotland	190	24,630 – –	—	24,630 – –	23,267 6 5	—	23,267 6 5	1,362 13 7	—

No. of Vote.	SERVICE.	Page.	Grants and Estimated Receipts, 1915-1916			Expenditure, 1915-1916.			Differences between Exchequer Grants and Net Expenditure.	
			Estimated Gross Expenditure.	Estimated Receipts in Aid of Grants.	Exchequer Grants.	Gross Expenditure.	Actual Receipts in Aid.	Net Expenditure.	Surpluses.	†Deficits.
			(1.)	(2.)	(3.)	(4.)	(5.)	(6.)	(7.)	(8.)
	CLASS II.—*continued.* SALARIES AND EXPENSES OF CIVIL DEPARTMENTS—*continued.*									
	Ireland.		£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
34	Household of the Lord Lieutenant of Ireland	191	4,554 – –	—	4,554 – –	2,723 8 2	—	2,723 8 2	1,830 11 10	—
35	Chief Secretary for Ireland	192	25,484 – –	319 – –	25,165 – –	23,760 5 5	218 10 2	23,541 15 3	1,623 4 9	—
36	Department of Agriculture and Technical Instruction, Ireland	194	228,745 – –	59,339 – –	169,406 – –	179,058 7 2	44,845 15 6	134,212 11 8	35,193 8 4	—
37	Charitable Donations and Bequests Office Ireland	203	2,254 – –	34 – –	2,220 – –	2,238 10 3	55 15 4	2,182 14 11	37 5 1	—
38	Congested Districts Board, Ireland	204	182,090 – –	12,340 – –	169,750 – –	169,750 – –	—	169,750 – –	—	—
39	Local Government Board, Ireland	212	126,566 – –	11,300 – –	115,266 – –	118,113 15 7	10,634 11 –	107,479 4 7	7,786 15 5	—
40	Public Record Office, Ireland	214	6,910 – –	—	6,910 – –	6,500 5 3	—	6,500 5 3	409 14 9	—
41	Public Works Office, Ireland	215	48,432 – –	1,700 – –	46,732 – –	45,073 2 2	694 7 –	44,378 15 2	2,353 4 10	—
42	Registrar-General's Office, Ireland	217	14,312 – –	950 – –	13,362 – –	15,384 14 5	1,185 7 –	14,199 7 5	235 7 –	1,072 14 5
43	Valuation and Boundary Survey, Ireland	218	46,233 – –	8,500 – –	37,733 – –	41,886 3 8	8,595 18 –	33,290 5 8	4,442 14 4	—
	TOTAL		5,926,862 – –	1,012,878 – –	4,913,984 – –	6,924,833 9 9	922,731 4 3	6,002,102 5 6	283,692 5 7	1,371,810 11 1
	CLASS III. LAW AND JUSTICE.									
	United Kingdom and England.									
1	Law Charges, England	224	106,004 – –	16,250 – –	89,754 – –	138,633 2 1	21,558 12 6	117,074 9 7	*5,308 12 6	32,629 2 1
2	Miscellaneous Legal Expenses	227	61,897 – –	12,731 – –	49,166 – –	45,233 7 2	– 18 7	45,232 8 7	3,933 11 5	—
3	Supreme Court of Judicature, &c.	229	378,285 – –	47,290 – –	330,995 – –	365,970 18 7	48,463 17 1	317,507 1 6	13,487 18 6	—
4	Land Registry	231	39,497 – –	—	39,497 – –	36,223 13 3	—	36,223 13 3	3,273 6 9	—
5	Public Trustee	232	60,766 – –	60,756 – –	10 – –	64,124 – 9	60,756 – –	3,368 – 9	—	3,358 – 9
6	County Courts	234	440,982 – –	322,000 – –	118,982 – –	402,502 6 1	309,382 16 6	93,119 9 7	25,862 10 5	—
7	Police, England and Wales	236	108,488 – –	92 – –	108,396 – –	158,706 11 4	92 10 –	158,614 1 4	– 10 –	50,218 11 4
8	Prisons, England and the Colonies	243	799,990 – –	22,000 – –	777,990 – –	680,368 19 1	14,687 – 5	665,681 18 8	112,308 1 4	—
9	Reformatory and Industrial Schools, Great Britain	249	356,324 – –	24,500 – –	331,824 – –	347,939 17 2	29,644 15 11	318,295 1 3	13,528 18 9	—
10	Criminal Lunatic Asylums, England	251	57,139 – –	1,019 – –	56,120 – –	53,167 2 8	1,292 17 2	51,874 5 6	4,245 14 6	—
	Scotland.									
11	Law Charges and Courts of Law, Scotland	254	134,726 – –	47,250 – –	87,476 – –	131,581 8 5	64,166 – 4	67,415 8 1	20,060 11 11	—
12	Scottish Land Court	257	10,084 – –	—	10,084 – –	8,102 2 4	—	8,102 2 4	1,981 17 8	—
13	Register House, Edinburgh	258	43,811 – –	—	43,811 – –	41,920 16 8	—	41,920 16 8	1,890 3 4	—
14	Prisons, Scotland	259	124,029 – –	6,894 – –	117,135 – –	108,122 15 1	6,342 9 1	101,780 6 –	15,354 14 –	—

* Surplus of Receipts in Aid over Estimate.

† Met from the Vote of Credit.

ABSTRACT STATEMENT showing the Appropriation of Grants, &c., for the Year ended 31st March, 1916—*continued*.

No. of Vote.	SERVICE.	Reference to detailed Account in Parliamentary Paper, No. 9 of 1917.	Grants and Estimated Receipts, 1915–1916. Estimated Gross Expenditure. (1.)	Estimated Receipts in Aid of Grants. (2.)	Exchequer Grants. (3.)	Expenditure, 1915–1916. Gross Expenditure. (4.)	Actual Receipts in Aid. (5.)	Net Expenditure. (6.)	Differences between Exchequer Grants and Net Expenditure. Surpluses. (7.)	† Deficits. (8.)
	Ireland.	Page.	£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
15	Law Charges and Criminal Prosecutions	263	65,863 – –	555 – –	65,308 – –	58,062 6 8	971 6 3	57,091 – 5	8,216 19 7	– –
16	Supreme Court of Judicature, &c.	265	118,194 – –	3,450 – –	114,744 – –	112,325 6 7	2,270 13 –	110,054 13 7	4,689 6 5	–
17	Irish Land Commission	267	809,320 – –	24,000 – –	785,320 – –	745,909 16 6	53,363 6 8	692,546 9 10	92,773 10 2	–
18	County Court Officers, &c.	269	113,985 – –	5,300 – –	108,685 – –	104,772 8 6	4,700 19 5	100,071 9 1	8,613 10 11	–
19	Dublin Metropolitan Police	271	163,314 – –	57,400 – –	105,914 – –	156,860 14 8	56,408 14 11	100,451 19 9	5,462 – 3	–
20	Royal Irish Constabulary	273	1,501,847 – –	47,580 – –	1,454,267 – –	1,432,670 12 2	47,901 17 4	1,384,768 14 10	69,498 5 2	–
21	Prisons	275	117,224 – –	3,250 – –	113,974 – –	105,935 8 9	808 17 2	105,126 11 7	8,847 8 5	–
22	Reformatory and Industrial Schools	279	112,866 – –	2,350 – –	110,516 – –	111,409 6 –	2,890 16 –	108,518 10 –	1,997 10 –	–
23	Dundrum Criminal Lunatic Asylum	281	8,452 – –	—	8,452 – –	8,181 3 9	8 6 11	8,172 16 10	279 3 2	–
	TOTAL		5,733,087 – –	704,667 – –	5,028,420 – –	5,418,724 4 3	725,712 15 3	4,693,011 9 –	421,614 5 2	86,205 14 2
	CLASS IV. EDUCATION, SCIENCE AND ART. *United Kingdom and England.*									
1	Board of Education	285	15,486,393 – –	5,015 – –	15,481,378 – –	15,183,645 13 7	5,269 2 11	15,178,376 10 8	303,001 9 4	–
2	British Museum	293	168,335 – –	13,400 – –	154,935 – –	161,749 7 2	9,405 12 –	152,343 15 2	2,591 4 10	–
3	National Gallery	296	21,670 – –	1,200 – –	20,470 – –	20,869 13 7	628 6 –	20,241 7 7	228 12 5	–
4	National Portrait Gallery	298	4,993 – –	—	4,993 – –	4,665 17 7	—	4,665 17 7	327 2 5	–
5	Wallace Collection	299	8,442 – –	480 – –	7,962 – –	7,922 19 7	171 2 7	7,751 17 –	210 3 –	–
6	London Museum	300	5,465 – –	—	5,465 – –	5,030 19 8	—	5,030 19 8	434 – 4	–
7	Scientific Investigation, &c.	301	115,582 – –	—	115,582 – –	99,053 – 3	—	99,053 – 3	16,528 19 9	–
8	Universities and Colleges, Great Britain, and Intermediate Education, Wales	304	316,200 – –	—	316,200 – –	315,799 15 3	—	315,799 15 3	400 4 9	–
9	Universities, &c., Special Grants	306	145,000 – –	—	145,000 – –	112,625 – –	—	112,625 – –	32,375 – –	–
	Scotland.									
10	Public Education	307	2,609,905 – –	—	2,609,905 – –	2,580,141 4 4	—	2,580,141 4 4	29,763 15 8	–
11	National Galleries	314	4,878 – –	—	4,878 – –	3,937 2 1	—	3,937 2 1	940 17 11	–
	Ireland.									
12	Public Education	316	1,806,619 – –	700 – –	1,805,919 – –	1,785,028 12 3	671 16 3	1,784,356 16 –	21,562 4 –	–
13	Intermediate Education	319	40,000 – –	—	40,000 – –	39,997 4 1	—	39,997 4 1	2 15 11	–
14	Endowed Schools Commissioners	320	900 – –	—	900 – –	833 4 8	—	833 4 8	66 15 4	–
15	National Gallery	321	2,165 – –	—	2,165 – –	1,619 13 6	—	1,619 13 6	545 6 6	–
16	Science and Art	322	148,107 – –	1,820 – –	146,287 – –	147,533 8 9	1,532 6 6	146,001 2 3	285 17 9	–
17	Universities and Colleges	325	124,000 – –	—	124,000 – –	117,392 2 5	—	117,392 2 5	6,607 17 7	–
	TOTAL		21,008,654 – –	22,615 – –	20,986,039 – –	20,587,844 18 9	17,678 6 3	20,570,166 12 6	415,872 7 6	–
	CLASS V. FOREIGN AND COLONIAL SERVICES.									
1	Diplomatic and Consular Services	329	861,037 – –	106,120 – –	754,917 – –	1,053,520 4 9	255,533 3 8	797,987 1 1	*149,413 3 8	192,483 4 9
2	Colonial Services	334	691,593 – –	—	691,593 – –	678,897 18 11	—	678,897 18 11	12,695 1 1	–
3	Telegraph Subsidies and Pacific Cable	342	52,748 – –	12,619 – –	40,129 – –	28,875 – –	5,716 13 7	23,158 6 5	16,970 13 7	–
4	Cyprus	343	50,000 – –	—	50,000 – –	50,000 – –	—	50,000 – –	—	–
5	Treasury Chest Fund	344	1,847 – –	—	1,847 – –	1,846 9 –	—	1,846 9 –	– 11 –	–
	TOTAL		1,657,225 – –	118,739 – –	1,538,486 – –	1,813,139 12 8	261,249 17 3	1,551,889 15 5	179,079 9 4	192,483 4 9
	CLASS VI. NON-EFFECTIVE AND MISCELLANEOUS.									
	Superannuation and Retired Allowances	347	826,215 – –	—	826,215 – –	805,927 14 2	—	805,927 14 2	20,287 5 10	–
2	Miscellaneous Expenses	355	27,704 – –	3,850 – –	23,854 – –	27,470 3 9	4,179 14 6	23,290 9 3	563 10 9	–
3	Hospitals and Charities, Ireland	358	16,853 – –	—	16,853 – –	16,837 14 7	—	16,837 14 7	15 5 5	–
4	Temporary Commissions	359	35,000 – –	—	35,000 – –	29,463 6 5	—	29,463 6 5	5,536 13 7	–
5	Repayments to the Local Loans Fund	366	3,387 – –	—	3,387 – –	3,386 16 5	—	3,386 16 5	– 3 7	–
6	Ireland Development Grant	367	185,000 – –	—	185,000 – –	185,000 – –	—	185,000 – –	—	–
7	International Exhibitions	369	2,500 – –	—	2,500 – –	322 10 7	—	322 10 7	2,177 9 5	–
8	Repayments to the Civil Contingencies Fund	371	11,776 – –	—	11,776 – –	11,775 4 6	—	11,775 4 6	– 15 6	–
9	Statutory Committee of the Royal Patriotic Fund Corporation	372	414	—	414	413 9 3	—	413 9 3	– 10 9	–
	TOTAL		1,108,849 – –	3,850 – –	1,104,999 – –	1,080,596 19 8	4,179 14 6	1,076,417 5 2	28,581 14 10	–

* Surplus of Receipts in aid over Estimate. † Met from the Vote of Credit.

ABSTRACT STATEMENT showing the Appropriation of Grants, &c., for the Year ended 31st March, 1916—*continued.*

No. of Vote.	SERVICE.	Reference to detailed Account in Parliamentary Paper, No. 9 of 1917.	Grants and Estimated Receipts, 1915-1916. Estimated Gross Expenditure. (1.)	Estimated Receipts in Aid of Grants. (2.)	Exchequer Grants. (3.)	Expenditure, 1915-1916. Gross Expenditure. (4.)	Actual Receipts in Aid. (5.)	Net Expenditure. (6.)	Differences between Exchequer Grants and Net Expenditure. Surpluses. (7.)	† Deficits. (8.)
	CLASS VII.									
	OLD AGE PENSIONS, LABOUR EXCHANGES, INSURANCE, &c.	£	£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	
1	Old Age Pensions	377	13,089,000	—	13,089,000	12,658,070 18 10	—	12,658,070 18 10	430,929 1 2	—
2	National Health Insurance Joint Committee	379	618,275	—	618,275	252,127 16 10	—	252,127 16 10	366,147 3 2	—
3	National Health Insurance Commission, England	385	4,900,356	—	4,900,356	4,812,700 12 2	—	4,812,700 12 2	87,655 7 10	—
4	National Health Insurance Commission, Wales	388	357,553	—	357,553	354,449 12 4	—	354,449 12 4	3,103 7 8	—
5	National Health Insurance Commission, Scotland	390	719,027	—	719,027	708,970 13 5	—	708,970 13 5	10,056 6 7	—
6	National Health Insurance Commission, Ireland	392	492,090	—	492,090	418,760 19 1	—	418,760 19 1	73,329 - 11	—
7	Labour Exchanges and Unemployment Insurance	394	1,293,830	259,400	1,034,430	1,242,519 19 4	271,126 18 8	971,393 - 8	63,036 19 4	—
8	National Insurance Audit Department	399	107,700	—	107,700	92,207 10 11	—	92,207 10 11	15,492 9 1	—
9	Treatment of Tuberculosis (Special Grants)	400	385,000	—	385,000	350,977 16 7	—	350,977 16 7	34,022 3 5	—
10	Highlands and Islands (Medical Service) Board	401	44,015	—	44,015	43,618 5 1	—	43,618 5 1	396 14 11	—
11	Friendly Societies Deficiency	403	14,712	—	14,712	14,711 18 -	—	14,711 18 -	- 2 -	—
12	Expenses under the Unemployed Workmen Act, 1905	404	50,000	—	50,000	—	—	—	50,000	—
	TOTAL		22,071,558	259,400	21,812,158	20,949,116 2 7	271,126 18 8	20,677,989 3 11	1,134,168 16 1	—

* Surplus of Receipts in Aid over Estimate. † Met from the Vote of Credit.

APPENDIX, No. 2.

PAPER handed in by Mr. *Roland Wilkins*, C.B., 12th March 1918.

(26921/17.)

TREASURY MINUTE dated 1st November 1917, on so much of the REPORT of the COMMITTEE of PUBLIC ACCOUNTS, 1917, as deals with the CIVIL SERVICE and REVENUE DEPARTMENTS, the VOTE OF CREDIT and GENERAL QUESTIONS.

1. My Lords read so much of the Report of the Committee of Public Accounts, 1917, as deals with the Civil Service and Revenue Departments, the Vote of Credit and General Questions—excluding those portions of paragraphs 1 and 9 which relate to the fighting services.

Paragraph 1.

2. *They note the Committee's recommendation that the time has now arrived when Estimates more approaching to those in force in normal times should be presented to Parliament, not merely for the fighting services, but also, where practicable, for the new services now charged direct to the Vote of Credit, e.g., War Refugees, Central Control Board (Liquor Traffic), War Trade Department.*

My Lords do not understand the Committee to propose that Votes of Credit should be entirely dispensed with, nor would it in their opinion be possible, while a war engaging the whole activities of the Nation is in progress, to provide for every possible contingency by a series of separate votes however comprehensive. New services are perpetually required under conditions of urgency such as to make the presentation of specific Estimates impracticable, while there remains a very large miscellaneous category of expenditure, particulars of which cannot in the national interest be made public and for which provision must necessarily be made in a globular sum.

If Votes of Credit were taken for these services only, it would become necessary to limit the application of such Votes by the terms of the estimate to services for which provision has not been made by specific Estimate, since if the Vote of Credit is to be available to meet any deficiency which may arise upon the specific votes the utility of the specific votes as machinery for control of expenditure disappears.

The Votes of Credit as so limited would therefore cease to be available, not only for all Army and Navy expenditure, but also for charges incurred by ordinary Civil Departments in connection with the war—which under the existing procedure are (in so far as the ordinary Vote is insufficient to meet them) defrayed out of the Vote of Credit.

In connection with Army and Navy, the existing powers of virement between Votes possessed by the Treasury (subject to confirmation by the Appropriation Act) would obviate any serious practical difficulties, but, in view of the rapidity with which conditions vary in war time, these powers would necessarily have to be very largely exercised, and however carefully the original estimates might be prepared, it is unlikely that the expenditure as ultimately recorded in the Appropriation Accounts would bear any close relation to the programme embodied in the Estimates and approved by Parliament.

In effect therefore the adoption of detailed estimates for the fighting services would merely be to set up separate Votes of Credit for Army and Navy in place of a single Vote of Credit for general War Expenditure.

In the case of Civil Departments (between the respective votes for which the Treasury has no power of virement) it would become necessary to go to Parliament for a supplementary vote in the case of each department on every occasion on which that department might have to undertake work which had not been foreseen when the Estimate was framed or on which work for which provision had been made might have expanded either in volume or cost beyond anticipations. If, for example, an increased War Bonus had to be given to civil servants in the course of a financial year, supplementary estimates would be required for every department except such as might be able to meet the cost from savings on other items.

Further it would be necessary, if confusion is to be avoided, not merely to take specific votes for the new War Departments themselves but to include in the Votes for the old Departments the cost of war services (now charged to the Vote of Credit) which are being performed by these departments. This would involve the recasting of the whole of the Estimates with the result that, not only would comparison with previous years be deranged, but normal charges and war charges would become inseparably mingled.

Under the present arrangement the total of Votes of Credit represents, roughly it is true, but with sufficient approximation to accuracy for practical purposes, the cost of Army and Navy plus the abnormal expenditure of a general character arising out of the existence of a state of war. Under the alternative arrangement the expenditure could only be classified by a detailed analysis of every vote.

For these reasons the provision of the whole or even of a considerable part of the War Expenditure by the machinery of separate and self contained Supply Grants is not in their Lordships' opinion feasible.

It would no doubt be practicable to provide for Army, Navy and Miscellaneous War Expenditure by three separate Votes of the character of Votes of Credit and to arrange a large part, though by no means the whole, of Army and Navy expenditure under the heads of separate votes, presenting Estimates similar in general appearance to those presented in peace time. It is, however, open to question whether the division of the Vote of Credit into three sections would mean any substantial increase of control, while the powers of virement between different Army and Navy Votes (if the plan of separate estimates were adopted) would, as already explained, have to be so extensively exercised that the tentative analysis of expenditure as shown in the Estimates as presented would in all probability in the result have little relation to the expenditure when it came to be incurred.

Apart, however, from the practical difficulties of carrying out a comprehensive scheme of war supply on the basis of self-contained estimates, my Lords are of opinion that the public interest requires that the Government should possess considerable freedom in allocating the provision made by Parliament for carrying on the war to whatever purposes may be most necessary and urgent from time to time, and that any system which required special application to Parliament for each individual service would be seriously

detrimental to executive efficiency. Indeed it is to be observed that, while in the past procedure by Army and Navy estimates has been adopted in the case of circumscribed Military and Naval operations and local conflicts (*e.g.*, the South African War), recourse has invariably been had to the expedient of a Vote of Credit in all wars in which the whole energies of the Nation have been engaged.

Subject, however, to these observations my Lords agree that it is desirable

(1) That all possible information should be given to Parliament concurrently with demands for War Supply, and

(2) That opportunities should be given for separate discussions of the more important services covered by the Vote of Credit.

They therefore propose to present to the House of Commons, at the same time as the ordinary estimates for 1918–19 (or as soon after as may be practicable), a statement showing in detail (wherever reasons of public policy do not preclude their disclosure) the various services for which provision is proposed to be made out of Votes of Credit, and to supplement this statement from time to time with further statements of new services as they arise or of the expansion of existing services as it takes place. These statements will, so far as possible, be in the form of ordinary supply estimates and they will include particulars of establishments borne on the Vote of Credit.

They further propose to extend the practice of presenting "token" estimates introduced in respect of the Ministry of Munitions to all new departments presided over by responsible Ministers, whether established under statute or by administrative action.

3. In the last section of paragraph 1 of their Report the Committee refer to the appointment of a Treasury official as a member of the Liquor Control Board and place on record certain observations as to the practice of nominating Treasury representatives on Committees generally.

My Lords are not clear why the Committee consider that "the practice throws upon the Treasury, with whom the ultimate decision rests, a new and very grave responsibility." It is and has always been the case that the general responsibility for the proper expenditure of public money (as distinguished from the special responsibility of the individual Departments concerned) rests upon the Board of Treasury, after consultation to such extent as they may think fit with their permanent advisers; and this responsibility is of course exceptionally heavy at the present time. But it is in no way increased by the fact that their permanent advisers instead of dealing with a particular case by correspondence have familiarised themselves with it by attending the meetings of a Committee.

As regards the question as to which of these alternatives is in itself to be preferred, Their Lordships would point out that for many years it has been the frequent practice for their officers to serve as members of deliberative committees whose recommendations involve expenditure, and that (*e.g.*, in the case of the Pacific Cable Board) they have also served on executive bodies. What happens in practice is that the Treasury representative keeps in touch with his Ministers, reporting to them from time to time as important questions of principle arise and asking for their instructions on points of doubt. This procedure is laborious and consumes a considerable amount of time; but it enables the Treasury to acquire information to an extent which is hardly possible in written correspondence and my Lords regard it as a very effective form of financial control. They do not subscribe to the opinion that it causes applications to be regarded as "quasi-departmental."

Paragraph 6.

4. The Treasury Circulars of 12th May and June 1917, with regard to the salaries of loaned officers, are annexed herewith.

Paragraph 8.

5. Write to the Under Secretary of State, Home Office.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to transmit herewith, for the information of the Secretary of State, a copy of paragraph 8 of the Report of the Public Accounts Committee, 1917, relative to the possibility of reducing the number of Commissioners on the Board of Control, and of paragraph 12 relative to the reintroduction of the Expenses of Aid to Police Bill and to ask for an expression of Sir George Cave's opinion on the latter point.

Paragraph 11.

6. Write to the Lord Chancellor.

My Lord,

With reference to the Treasury Letter of 23rd February 1917 (5921/17), I am directed by the Lords Commissioners of His Majesty's Treasury to transmit to you herewith a copy of paragraph 11 of the Report of the Public Accounts Committee 1917, relative to certain payments for overtime made by the Public Trustee, and to say that, in view of the opinion expressed by the Committee, They authorise the charge to the Vote of the sum of £18 11s. 5d.

Paragraph 14.

7. Write to the Chairman.

National Health Insurance Joint Committee.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to transmit to you herewith a copy of paragraph 14 of the Report of the Public Accounts Committee 1917, and to request that Their Lordships may be favoured with the observations of the Joint Committee on the suggestion that two signatures should be required to cheques drawn by the officials of approved Societies.

Paragraph 16.

8. My Lords note the opinion of the Committee that, in the circumstances explained by the Attorney-General, covering sanction may now be given for the payment to him, when Solicitor-General, of Refresher Fees exceeding by £63 in all the maximum prescribed by the Treasury Minute of 5th July 1895, and that no question of repayment should arise; and They give Their sanction accordingly.

They desire, however, to place on record Their view that, having regard to the terms of Clause 8 of that Minute, which embodies the conditions on which the Law Officers must be presumed to accept office, it is desirable that, when Law Officers receive special remuneration, it should be paid in the form of increased brief fees and not of increased refreshers.

They also feel unable to concur in the view expressed by the Attorney-General that neither he nor the Solicitor-General should be expected in any circumstances to accept a lower fee than a junior. Clause 8 of the Treasury Minute prescribes that "for contentious business, as above described, the Law Officers and their clerks shall receive fees according to the ordinary professional scales, meaning thereby the scale of fees which a Queen's Counsel of *average* standing in the profession might properly accept from a private client. . . . . ." and, further, it does not seem to Them possible in this connection to leave out of account the large fixed salaries paid to the Law Officers.

Finally, with reference to the Attorney's-General's statement (Q. 1275) that there had been 30 cases a year in which the Treasury Minute had been altered, They desire to say that during the five years 1912 to 1916 inclusive only 11 cases arose in which the question of increasing either the Brief Fees or the Refreshers of English Law Officers were submitted to the Chancellor of Exchequer, inclusive of the present case and of one other in which the increase was refused.

Write to the Commissioners of Inland Revenue.

Gentlemen,

I am directed by the Lords Commissioners of His Majesty's Treasury to transmit herewith for your information and guidance a copy of paragraph 16 of the Report of the Public Accounts Committee of 1917, and an extract from Their Lordships' Minute thereon of to-day's date relative to the Refresher Fees paid to the present Attorney General (then Solicitor-General) in the case The King v. The Kensington Income Tax Commissioners ex parte Aramayo.

Paragraph 17.

9. As regards the method of charging the cost of manufacture of Currency Notes Their Lordships would point out that, while it is indefensible to charge to the Vote of Credit payments unconnected with the War, there is no irregularity in placing on the Estimates a charge which might have been imposed on the Vote of Credit. Indeed in paragraph 1 of their Report the Committee definitely recommend this course in certain instances. It follows that, in border line cases, the more orthodox course is to charge the Estimates. My Lords are not prepared in present circumstances to commit Themselves to any definite statement as to the period for which Currency Notes may be required; and, this being so, They do not feel justified, as matters now stand, in taking the responsibility for charging the Vote of Credit.

It will be recollected that in paragraph 76 of the Second Report of the Public Accounts Committee of 1916 it was stated that the "Committee are informed that the further expense of the production of these Notes is now provided on the Inland Revenue Vote and they concur in the emergency measures taken at the outset."

Paragraph 18.

10. Write to the Postmaster-General.

Sir,

With reference to the Treasury Letter of 1st December 1915 (25842/15), relative to the refund to a Limited Liability Company of the sum of £130 15s. 9d., representing the value of certain cheques which their secretary had improperly converted to his own use through the Post Office Savings Bank, I am directed by the Lords Commissioners of His Majesty's Treasury, to transmit to you herewith a copy of paragraph 18 of the Report of the Public Accounts Committee, 1917, recording their opinion

(i.) That in such cases prosecution should be undertaken unless a Department is legally advised that there is insufficient evidence to secure conviction.

(ii.) That proper disciplinary action was not taken in regard to the clerks at fault.

Paragraphs 63–7.

11. My Lords note the observations of the Committee with regard to the Vote of Credit.

(15832/17.)

ANNEXE.

12th May, 1917.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to inform you that, in the course of consideration by the Public Accounts Committee of the Appropriation Accounts 1915–16, questions have arisen as to the extent to which Civil Servants, whose salaries are borne upon the Vote of one Department, are in the present emergency actually employed in other Departments.

With a view to furnishing in future the desired information in a convenient manner, I am to request that you will cause to be appended to your Appropriation Account for the year 1916–17 and for subsequent years notes in the following form:—

"Salaries amounting approximately to £ are included in this account in respect of officers temporarily lent to other Departments.

"Salaries amounting approximately to £ are included in the accounts of other Departments in respect of officers temporarily lent to this Department."

My Lords fully recognise the pressure under which the accounting staffs of departments are now working; and, with a view to reducing to a minimum clerical and accounting labour, amounts of less than £2 in respect of any individual officer may be disregarded. Further, the notes may be omitted altogether where the *total* sum involved is less than £100.

My Lords take this opportunity of reminding Departments that, in the absence of special circumstances, no actual cash adjustment should be made between Votes in respect of officers on loan. In case of doubt reference should be made to Their Lordships' Officers of Accounts.

Sir, June 1917

I am directed by the Lords Commissioners of His Majesty's Treasury to request that the following additions may be made to the Treasury Circular of the 12th ultimo.

Paragraph 1, *line* 6, *at end* "or serving with His Majesty's Forces."

Paragraph 3, *line* 6, *at end* "and no attempt should be made to assess the value of part time assistance."

The form of the notes referred to in paragraph 2 should be altered to the following:—

"This account includes sums of approximately £ in respect of salaries, &c., of staff temporarily lent to other Departments, and £ in respect of staff serving with His Majesty's forces.

"The accounts of other Departments include the sum of approximately £ in respect of salaries, &c., of staff temporarily lent to this Department."

APPENDIX, No. 3.

PAPER handed in by Mr. *Roland Wilkins*, C.B., 12th March 1918.

(334/18.)

TREASURY MINUTE dated 31st December 1917, on the REPORT from the PUBLIC ACCOUNTS COMMITTEE 1917, dealing with ARMY and NAVY and MINISTRY OF MUNITIONS ACCOUNTS for 1915-16.

My Lords have before Them the Report from the Public Accounts Committee 1917, and are pleased to give the following directions on those sections of the Report which relate to Navy and Army and Ministry of Munitions Accounts 1915-16.

1. Write to the Secretary, Admiralty.

Sir,

The Lords Commissioners of His Majesty's Treasury command me to transmit, to be laid before the Lords Commissioners of the Admiralty, a copy of the Report from the Public Accounts Committee 1917, with regard to Navy Accounts 1915-16, and to communicate to you the following observations thereon:—

Paragraph 21.

My Lords share the hope expressed by the Committee that the documents necessary to enable the Comptroller and Auditor-General to audit Navy Accounts will in future be supplied to him with the least possible delay.

Paragraph 24.

Contracts on basis of net cost plus percentage.—My Lords share the satisfaction expressed by the Committee that a form of contract is being adopted by the Admiralty, limiting or fixing at a definite sum the profit of contractors. The Admiralty will no doubt be able to inform the Committee to what extent resort is still had to the net cost plus percentage system.

Paragraph 26.

Navy Armaments: Prices of Shell, Cordite, etc.—My Lords share the view expressed by the Committee as to the importance of close co-operation between the Admiralty, War Office, and Ministry of Munitions in regard to supply, and They trust that all possible steps will be taken to develop such co-operation.

Paragraph 29.

Dockyard Expense and Greenock Torpedo Factory Accounts.—My Lords note that while the Committee raise no objection to the decision to omit presentations to Parliament of the Dockyard Expense and Greenock Torpedo Factory Accounts, they express the opinion that the matter should have been referred to them before a formal decision was taken.

I am, etc.,

2. Write to the Secretary, War Office.

Sir,

The Lords Commissioners of His Majesty's Treasury command me to transmit, to be laid before the Army Council, a copy of the Report from the Public Accounts Committee 1917, with regard to Army Accounts 1915-16, and to communicate to you the following observations thereon:—

Paragraph 32.

Use of Cost Accounts by the War Office.—The Council will note the view of the Committee that the powers now conferred on departments of examining contractors' books, and fixing prices on actual cost of production plus a percentage for reasonable profit, should be retained on returning to normal conditions. They have no doubt that this question will be borne in mind.

Paragraph 37.

Economy effected in the feeding of troops.—My Lords share the satisfaction of the Committee at the results obtained, and They believe them to be capable of considerable development. They understand that the Council are taking active steps to increase and extend the efficiency of the salvage system.

They trust that no opportunity will be omitted of bringing home, not merely to the officers directly in charge of salvage, but to all ranks of combatant and other services the great importance of the utmost possible economy in the use of Army Stores and in the recovery of value which might otherwise be lost.

Paragraph 38.

High charges for handling meat in Egypt.—My Lords share the regret which the Committee feel at these transactions, and the Council will note their comment on the absence of disciplinary action and of effective review by the War Office of large local contracts.

Paragraph 40.

Compensation for loss of agricultural rights.—During the War the question whether official arbitrators shall be appointed, possibly under the Board of Agriculture, to arbitrate in cases of compulsory purchases by Government Departments becomes of less importance in view of the procedure of the Defence of the Realm Powers. But the question should not be lost sight of.

Paragraph 43.

Stock Accounts and Stocktaking.—My Lords trust that regular stocktaking at depots abroad is being continued with satisfactory results.

I am, etc.,

3. Write to the Secretary, Ministry of Munitions.

Sir,

The Lords Commissioners of His Majesty's Treasury command me to transmit to be laid before the Minister of Munitions a copy of the Report from the Public Accounts Committee 1917, with regard to Ministry of Munitions Accounts 1915-16, and to communicate to you the following observations thereon:—

Paragraph 47.

Formation of the Department.—The Committee are not satisfied that Treasury control should have been relaxed to the extent of permitting the Ministry to make all appointments of Civilian employees on a temporary and non pensionable footing at salaries not exceeding £400 per annum.

At the same time My Lords cannot but feel that the situation with which They were confronted at the time when this power was accorded to the Minister demanded some relaxation of the normal rules, in view of the fact that the Ministry was constituted to take over a large portion of the work of the War Office in connection with supply. The financial relations between the Ministry and the Treasury were based on those subsisting between the War Office and the Treasury. The War Office already possessed authority to make temporary and non-pensionable appointments at salaries not exceeding £300 per annum without previous reference to this department.

The War Office, moreover, had the advantage of a permanent organisation which was able to supply or to develop at short notice from existing personnel the posts of a supervisory character necessary for the conduct of the increased work.

The Ministry of Munitions had, on the other hand, with the exception of certain transferred officers, no permanent nucleus on which to draw, but had to improvise at the shortest possible notice an organisation capable of undertaking a task which practically amounted to the mobilisation of the industry of the country for the supply of munitions to the Army.

My Lords felt, and still feel, that to have taken any other course would have been either to risk a breakdown in the organisation of supplies imperatively needed, or to cause well-nigh impossible strain to be placed upon the small staff of this department, in view of the unprecedently rapid extension of the work of the Ministry. They, therefore, felt Themselves justified in giving the Minister the power upon which the Committee comment.

At the same time My Lords stipulated that the rates of pay of classes common to the service should be those in force as from time to time prescribed by this department.

My Lords, however, do not pretend to be satisfied that the vast expansion of the staff of the Ministry which has taken place since the issue of Their Minute has been all justified; on the contrary, They believe that by closer watch and more rigorous control of the staff, a large amount of waste could have been avoided.

Waste of this kind arises, They are convinced, more by insufficient co-ordination of work (as for instance when several departments are engaged on the same, or nearly the same, compilation of statistics) than by over-staffing in the sense of giving insufficient employment to the personnel engaged. Even in the latter respect They are confident that there exists a wide field for economy.

Paragraph 51.

The Minister will note the opinion of the Committee as to the payment without sufficient vouchers of a claim by the Women's Social and Political Union arising from a procession of women.

Paragraph 53.

Erection carried out on net cost plus percentage basis.—Mr. Churchill will note the recommendation of the Committee that the remuneration of contracts on the basis of net cost and percentage should be based on a sliding scale.

Paragraph 54.

Revision of prices by means of costings.—My Lords note with interest the observation of the Committee that the system is stated to be now welcomed by manufacturers as giving them a closer control over their transactions.

Paragraph 56.

Want of cohesion between different branches of the Ministry.—My Lords are confident that there is a very fruitful source of wasteful expenditure in the lack of co-operation between the different branches of the Ministry. With the vast expansion of the Ministry's operations, the danger of such lack of co-operation increases, and They trust that Mr. Churchill is fully alive to the importance of maintaining the different branches of the Ministry in the closest possible touch, and that the recent re-organisation of the department is working towards this desirable end.

Paragraph 58.

Orders placed before conclusion of agreement.—The Committee state that undue delay is not allowed in the fixing of fair prices for contract articles in the case of which there is not sufficient experience to enable a fair price to be fixed beforehand.

My Lords have some reason to believe that there have been considerable delays in fixing prices, and They would be glad to receive a statement showing the number of cases believed to be outstanding in which articles were ordered—

(1) Before 1st April, 1915.
(2) Before 1st April, 1916.
(3) Before 1st April, 1917,

but prices have not yet been fixed.

Paragraph 60.

Store Accounts.—My Lords trust that the steps which have been taken to remedy the very serious omission on the part of the Ministry to trace the issue of stores to contractors have been found successful, and that in the future such omissions will be impossible owing to the new system adopted.

I am, &c.

APPENDIX No. 4.

PAPER handed in by Mr. *Roland Wilkins*, C.B., 19th March 1918.

ALLOWANCES FOR PRIVATE SECRETARIAL WORK TO OFFICERS SERVING WITH THE FORCES.

Paragraph 10 of the Treasury Regulations as to the balance of Civil Pay, dated 22nd October 1914, ran as follows:—

"For the purpose of reckoning civil pay under this and previous circulars all special payments, such as casual overtime or non-pensionable allowances, should be omitted, unless special Treasury authority to the contrary has been obtained. Where salary is based on piece-work, the case should be submitted for the decision of the Treasury."

The question as to the conditions under which Treasury authority should be given for the inclusion of Private Secretaries' allowances in the calculation was very carefully considered in the autumn of 1914.

These allowances are sums allotted to certain Ministers or Heads of Departments, etc., to enable them to provide themselves with certain special assistance which they require. They are attached, not (like salaries) to *men* or classes, but to *duties*. No holder has or can acquire a *vested interest in the* allowance; if he ceases to do the duties any day, the allowance properly lapses and he has no kind of claim to compensation. The allowance is not pensionable, the holder cannot carry it with him either on promotion or on transfer to other duties; he has no right to it during sick leave, and he can only get it then through the indulgence of his Chief or his colleagues.

What in practice happens during sick leave is this. The Private Secretary may retain the allowance if his chief wishes it, provided that no extra cost is involved; either (1) the chief may do without the assistance or (2) he may get the services of a substitute from the office who does the work without pay. It is usually in the substitute's own interest to take the opportunity which the temporary absence of the incumbent gives him of getting fresh and useful experience, though without any pay.

Similarly when War broke out, it happened in various cases that the Private Secretary's colleagues were reluctant to see his emoluments reduced during his service with the Forces, and were quite willing to make a friendly arrangement under which during his absence one of them performed his work without extra pay as a matter of patriotism, and the Treasury laid down the rule that, if the officer continued nominally to hold the post of Private Secretary and arrangements were made to carry on his duties as Private Secretary during his absence without extra charge to the Exchequer, he might receive the benefit of the terms laid down for Civil Servants by the Treasury Circulars.

The following cases were treated on this basis —

Mr. ——— Higher Division Clerk, Local Government Board, Dublin.
Mr. ——— Junior Clerk, Scottish Office.
Mr. ——— Colonial Office.
Mr. ——— Assistant Principal Clerk, Admiralty.
Mr. ——— Second Class Clerk, National Health Insurance Commission, Scotland.
Messrs. ——— and ——— Second Class Clerks, Office of Works.
Mr. ——— Second Division Clerk, Office of Works
Mr. ——— Assistant Private Secretary to the Patronage Secretary to the Treasury ultimately rejected on medical grounds).

The India Office were also informed of the practice for application to their own staff if desired.

As explained in evidence, the case of Mr. , of the Charity Commission, differed in some respects from the foregoing, and was not regarded by the Treasury as satisfactory. In the first place, it had not been submitted for special authority, as required by the Regulations. In the second place, the case was one not of a Private Secretary continuing to draw an allowance, but of an officer being appointed to be Private Secretary during his absence.

The appointment was made on 1st March, 1917. It was not queried by the Comptroller and Auditor-General till 13th October, 1917. Covering sanction was requested by the Charity Commission on 18th October, 1917.

Several alternatives were open to the Treasury.

They might have insisted on the immediate recovery of the total sum paid to the officer during the intervening months; or, without insisting on recovery, they might have withheld covering sanction and left the Accounting Officer to defend his action before the Public Accounts Committee. But the former course would have been somewhat severe, since no extra expense had been caused to the Exchequer, and the money had been received in good faith. The latter course (as explained in Evidence 1915 Q.1044) would have been appropriate if the case had been large and of sufficient importance to make it probable that Parliament would take an interest in the matter. But (ibid) the duty of the Treasury is to sift such cases, and not to trouble the Committee with such as are small in amount, and do not raise material questions of principle.

What they actually did therefore was to record their dissatisfaction with the course which had been actually taken, but to signify their acquiescence in the following terms:—"My Lords are not aware of any other case in which a Private Secretary's allowance has been assigned to an officer who was already absent from his Department on military service, and such use of the allowance appears to them open to question, seeing that the allowance is intended to be given in consideration of the performance of specific duties. In the circumstances described, however, My Lords give covering sanction for the action taken"

It will be observed that, if the Charity Commission had nominally issued the allowance to another officer on the understanding that he would pay it over to Mr. , no objection could have been raised to this course.

APPENDIX No. 5.

PAPER handed in by Mr. *Roland Wilkins*, C.B., 11th April 1918.

The memorandum showing the estimated charge on the Vote of Credit 1917–8 submitted by the Customs and Excise Department with the ordinary estimate 1917–8, was as follows:—

MEMORANDUM ON VOTE OF CREDIT EXPENDITURE.

"It is anticipated that the net amount of expenditure chargeable to the Vote of Credit which will be incurred by the Customs and Excise Department in 1917–8 will be £220,000 as compared with £147,000 in 1916–7.

"The increase is due mainly to War Bonuses, to the employment oftemporary assistance in substitution for the services of men on military duty, and to the payment of gratuities in respect of Old Age Pension Additional Allowances."

This figure was quoted in paragraph 46 of the Memorandum to the Estimates 1917–8 as "approximately £200,000."

The estimated Vote of Credit charge for 1918–9 is £580,000, of which £535,000 is in respect of Subhead B of the Customs and Excise Vote, and represents extra staff for war services and the cost of special war allowances. Full details will be given in the White Paper which is now being set up in type.

APPENDIX No. 6.

PAPERS handed in by Sir *Sydney Olivier*, K.C.M.G., 11th April 1918.

SAVINGS DUE TO CLOSING OR PARTIAL CLOSING OF MUSEUMS AND ART GALLERIES.

STATEMENT BY THE ACCOUNTING OFFICER OF THE BOARD OF EDUCATION, CLASS IV., VOTE 1.

SAVINGS DUE TO CLOSING OR PARTIAL CLOSING OF MUSEUMS.

	Science Museum.	Geological Museum.	Bethnal Green Museum.	TOTAL.
	£	£	£	£
Reduction made in B. of E. Estimate for 1916–17	1,632	232	2,291	4,155
Further saving shown in Appropriation Account	—	73	108	181
ANNUAL SAVING 1916–17 - -	1,632	305	2,399	4,336
Further reductions made in 1917–18	—	125	478	603
ANNUAL SAVING 1917–18 - -	1,632	357	2,769	4,758
Deduct for 1918–19 on account of re-opening of Science Museum	93	—	—	93
ANNUAL SAVING 1918–19 - -	1,539	357	2,769	4,665

These three Museums were closed to the public from 6th March 1916; the Science Museum was partly re-opened from 1st January 1918, and the other two remain closed.

The saving in 1917–18 was larger than in 1916–17 because the police account is paid about three months in arrear, and therefore the full effect of the saving of police in the Bethnal Green and Geological Museum was not felt immediately upon the closure.

The statement does not include any estimate of the amount saved in heating and lighting; the charges for these services are borne by the Office of Works, Class I., Vote 6.

STATEMENT BY THE ACCOUNTING OFFICER OF THE BRITISH MUSEUM, CLASS IV., VOTE 2.

The smallness of the saving on the Museum Estimates due to the closing of the Museum can be easily explained.

In a memorandum sent by me, on the Trustees' instructions, to the Treasury on January 12th, 1916, it was estimated that (a) about £10,000 could be saved at Bloomsbury and £1,400 at the Natural History Museum without closing the Museums to the public, and (b) about £10,000 additional could be saved at Bloomsbury and £3,000 at the Natural History Museum by the closing of the Museums. It was subsequently decided that the Natural History Museum should not be closed, except to a very small extent, and the economies estimated under that head were consequently not realised. Of the Bloomsbury economies under heading (a) £8,200 was estimated to arise from the lending of members of the staff to other Departments, and as their salaries continued to be paid from the Museum vote, the economy would not appear in the Museum estimates, but in those of the Departments to which they were lent. The remaining £1,800 was estimated to arise from a reduction in the labour supplied by contractors, and this saving was realised within a few pounds (reduction of £1,768 in sub-head G).

The savings under heading (b) were estimated to arise from a reduction in the staff of police (£3,500) and commissionaires (£3,000), abolition of official guides, publications saleswomen, and some of the ladies' attendants (£1,000), and savings on heating and lighting (£2,500) and cleaning (£1,500). Against this gross saving of £11,500 was to be set a loss through reduction in the sales of publications estimated at £1,500. This estimate was subsequently modified by the retention of the official guides, saleswomen, ladies' attendants, and all commissionaires with more than two years Museum service on the Museum vote, though the services of most of them have been lent to other Departments. In addition, the heating and lighting services were transferred to the Office of Works, and I am unable to say whether the expected economy was realised. The actual saving on police amounted to £4,295, on commissionaires to £930, on cleaning to £1,885.

It appears, therefore, that of the estimated gross saving of £21,500, £11,210 would not appear on the Museum vote since it was due to the lending of staff to other Departments (ordinary staff, £8,200; guides, etc., £1,000; commissionaires, £2,000); £2,500 was transferred to the control of another Department; while as against the remaining estimated saving of £7,800, an actual saving of £8,878 appears in the estimates for 1916–17 (contractors labour, £1,768; police, £4,925; commissionaires, £930; cleaning, £1,885).

Of this total, £7,110 may be regarded as due to the closing of the Museum to the public, in addition to the relief that may have been given to the national finances by the loan of certain members of the Museum staff who could not have been spared if the galleries had remained open.

The actual economy accruing to the country through the loan of staff to other Departments cannot easily be ascertained, since it depends on the amount which those Departments would otherwise have had to pay for outside assistance; but it probably is not material for the present purpose.

STATEMENT BY THE ACCOUNTING OFFICER OF THE NATIONAL GALLERY, CLASS IV., VOTE 3.

(1) At no time did the Trustees of the National Gallery anticipate, or hold out hopes, that any considerable saving would be effected by the closing or partial closing of the National and Tate Galleries.

(2) The National Gallery Estimates 1916–17, framed when half the National Gallery was already loaned to the Government, represent the practical minimum on which the two Galleries can be maintained, shut or open.

(3) Half the National Gallery and the whole of the Tate Gallery have been taken over by Government Departments; this fact has practically no bearing upon the amount of the expenditure—except in so far as the heating and lighting are concerned—for buildings of this nature and with such contents must be perpetually policed.

In conclusion, if evidence is sought as to the economies effected since the war by this Department, a fruitful comparison might be made of the estimate 1914–15 with that of 1917–18. The earlier provided for £24,795; the latter for £11,671.

LETTER FROM THE ACCOUNTING OFFICER OF THE NATIONAL PORTRAIT GALLERY, CLASS IV., VOTE 4.

National Portrait Gallery,
St. Martin's Place, W.C. 2,
10th April, 1918.

Sir,

The Comptroller and Auditor-General has written stating that at a recent meeting of the Committee of Public Accounts questions were asked as to the amounts saved on salaries, lighting, heating, &c., by the closing or partial closing of the National Museums and Art Galleries. He further stated that it was remarked that there appeared to be comparatively little saving on the 1916–17 estimates, but that no doubt the closing had been taken into account in framing these estimates. The Comptroller and Auditor-General requests that I should make some statement, so far as concerns the Vote of the National Portrait Gallery, for the information of the Committee.

On behalf of the Trustees of this Gallery I have the honour to state that a comparison of the estimates for this Department for 1916–17 with those for 1915–16 will show a net decrease of £1,508 in so far as concerns the sub-heads of the Vote over which the Trustees have control. This large saving was effected chiefly by the withdrawal of the whole of the Metropolitan Police Constables employed

for the protection of the Gallery. The male staff of the Department were sworn in as Special Constables, and to their ordinary Gallery work the responsibilities of the police were added, and duty continuously day and night, Sundays included, under the supervision of the Director and Acting Assistant-Keeper, became compulsory.

By the appointment of Mr. Holmes to the Directorship of the National Gallery and the promotion of the Acting Assistant-Keeper as his successor, a vacancy in the clerkship was created. At the request of His Majesty's Treasury this post will remain unfilled for the duration of the war and a temporary lady clerk be provided. The adjustment of other savings to meet the additional expenditure on various items of sub-head A was also carried out at the request of His Majesty's Treasury.

With regard to sub-head B, Incidental Expenses, the pre-war grant of £500 has now been reduced to £150, a sum which is really insufficient, considering the increased cost of labour, materials, and Gallery requisites, to maintain the portraits in order and provide for the necessary repairs, &c., to current additions to the Collection.

Questions relating to the cost of maintaining the building, furniture, fuel, light, &c, concern the Secretary of His Majesty's Office of Works, the Trustees having no control over the estimates for these items.

It should, however, be borne in mind that when, at the urgent request of His Majesty's Government, the Trustees consented to lend the whole of the exhibition rooms of this Gallery for the use of the War Office, there was no artificial light in any of the rooms surrendered: only the offices and basement were lighted by electricity. The conversion of so many rooms into offices, and the adaptation of staircases, corridors, landings, &c., for office use, have involved a considerable expenditure not only in furniture but also in lighting. The Trustees have refused to allow any structural alterations to be made in the building beyond the erection of a few light partitions. With regard to the heating of the building, over which the Trustees still exercise control, inasmuch as the condition of the pictures and other objects is still a matter of consideration, they have insisted on a temperature below the maximum laid down by His Majesty's Office of Works; in fact, the low temperature maintained has been the subject of complaint by the War Office Staff. Only one coal fire is now used in the whole building; it is required for various domestic purposes and cannot be dispensed with.

In addition to lending the whole of their exhibition galleries (the rental value of which may be estimated approximately at £7,000 per annum) for the accommodation of one branch of the War Office, viz. the Separation Allowances Department, employing at this moment a staff of 378 persons, the Trustees have reduced their pre-war estimates, over which they have direct control, from £6,000 to £3,500.

I have, &c.,
(Signed) *James D. Milner.*

The Chairman,
Committee of Public Accounts.

STATEMENT BY THE ACCOUNTING OFFICER OF THE WALLACE COLLECTION, CLASS IV., VOTE 5.

(1) The Wallace Collection was opened only during the hours of daylight, consequently the saving on lighting was nil. The Galleries were always moderately heated (the majority of visitors entering with their coats on), and as all objects of art suffer more or less from moist air no material reduction from a temperature already moderate could be made—the saving of coal therefore is negligible. The care and cleaning of a work of art can never suffer diminution except at the expense of the object neglected. Consequently, only in connection with the watching staffs was any substantial economy possible, and this reduction is lessened for two reasons. In the first place, the watching duty is generally combined with a certain amount of light, dusting and cleaning before the doors are open to the public, and in the second, a small watching staff has to be maintained whether the Gallery is open to the public or not. The work of the keeper and his staff actually suffered an increase, for not only had they the care of the objects as before (always their chief business) but correspondence flows in from all quarters as to catalogues, photographs and the objects of art, most of which, normally, would have been disposed of by the applicant's personal visit to the Gallery.

(2) Notwithstanding these difficulties, over £5,000 a year is being saved on the Wallace Collection Vote alone, apart from small savings on Votes administered by the Office of Works. For example:—

	£.
(i) The keeper and Museum staff were sworn in as special constables and assumed the duties previously performed by the Police. The sub-head for Police consequently does not appear in the Estimates for 1916–17. In 1915–16 the expenditure for Police was £3,881, and at current rates it would exceed £4,000.	4,000
(ii) The official guide was dispensed with, saving £130.	130
(iii) Incidental expenses, which in 1914–15 were £818, fell to £107 in 1916–7.	650
(iv) Uniforms cost £137 in 1914–15, but only £97 in 1916–17.	40
(v) In spite of the increased responsibilities and duties placed upon the keeper and his staff by the assumption of Police Duty and by the precautionary measures taken against attacks by hostile aircraft, expenditure on salaries decreased from £3,816 in 1914–15 to £3,568 in 1916–17—a reduction of £150, after allowing for economy number (ii) already included. I am sure the Committee of Public Accounts will appreciate how substantial the economies are that have been made. Such a result could not have been achieved, however, without the loyal co-operation and goodwill of the whole staff, of whom I must express my high appreciation. If opportunity offers I hope the Committee will also accord their approval.	150
	£4,970

(3) The economies set forth in the previous paragraph have been achieved in spite of the fact that the whole of the first floor of Hertford House and part of the ground and second floors are in the occupation of the Naval Staff Intelligence Division (I.D. 32), and that occupation has entailed a considerable amount of extra work for the whole staff. At a low estimate I assess the value of those services at not less than £500.

(4) At the moment considerable pressure exists here owing to the decision to pack and remove the collection from Hertford House to safer quarters. I hope in these circumstances that the particulars given will be deemed sufficient, as to supply details of all the economies affected during the last three years would place upon my assistant a volume of work which it is particularly undesirable he should perform at the present time.

STATEMENT BY THE ACCOUNTING OFFICER OF THE LONDON MUSEUM, CLASS IV., VOTE 6.

DETAILS OF ACTUAL EXPENDITURE AT THE LONDON MUSEUM BEFORE THE WAR, AND FOR THE PRESENT YEAR ENDING 31ST MARCH 1918:—

	Actual Expenditure for London Museum for last year fully open to the Public, viz., 1914–15.	Actual Expenditure for London Museum for year 1917–18, ending 31st March.	Saving through closing London Museum.
	£	£	£
A.—Salaries and Wages - - - -	1,015	854	161
B.—Police; guarding and patrolling Museum.	3,713	1,090	2,623
C.—Incidentals; cleaning Museum, &c.	703	501	202
	£5,431	£2,445	£2,986

showing a total net saving of £2,986; this includes a sum of £200 for extra pay caused directly by the war.

In addition to this, the Trustees have loaned to the Government no less than 33 galleries, reserving only the basement and administrative offices for the actual storage of the Museum objects, thus effecting a further considerable saving of the public money.

APPENDIX No. 7.

PAPER handed in by Sir *Sydney Olivier*, K.C.M.G., C.B., 11th April, 1918.

INLAND REVENUE—APPROPRIATION ACCOUNT 1916–17.

There are two points connected with Excess Profits Duty in regard to which the Comptroller and Auditor-General has been unable to procure documents necessary for his Audit.

One point has arisen in a case in which liability to Excess Profits Duty was determined by the Surveyor from an inspection of the tax payer's books.

The Accounts required are those for the accounting periods and pre-war periods for which the Commissioners of Inland Revenue, who are the assessing Authorities, are empowered by sec. 44 (1) of Finance (2) 1915 to call, and generally do call for, (E.P. Form 1, note 1 on pages 2 and 3).

In reply to a request for such Accounts in the case in question the Accounting Officer stated that the Board of Inland Revenue were satisfied and could not now require the Company concerned to furnish these documents. On a further inquiry whether arrangements would be made so that in similar cases in future the necessary documents may be forthcoming when required for audit, the Accounting Officer furnished a copy of a minute by the Board of Inland Revenue on the matter as follows:—

"Under Section 44 (1) of the Finance (No. 2) Act 1915 the Board have power, where they think fit, to obtain from the taxpayer for the purposes of the assessment of Excess Profits Duty returns of the profits of his business and such other particulars as they may require. Any returns, copies of documents and like information necessary for the purpose of assessment when obtained by the Board are preserved and are available for production to the Auditors."

"Where the taxpayer does not possess the documents mentioned in the printed form of return and copies thereof are accordingly unavailable, the Board may, in the exercise of their statutory discretion, ask for the preparation of such documents (if they can be prepared) or may adopt other measures which, while avoiding labour and expense to the taxpayer and delay in the assessments of duty, will lead to a proper assessment."

"Where a return called for is not made, or where the Board are not satisfied with any return which is made, they also have discretion to make an assessment estimated according to the best of their judgment."

"The character and scope of the Board's requirements from taxpayers for purposes of assessment vary with the varying circumstances of different cases, and can only be decided by the Board on the facts of the individual cases which arise. In particular there are numerous cases in which oral interrogation and inspection of original documents in supplement of written returns or in substitution therefor is imperatively necessary in the interests alike of the taxpayer and of the State."

"It may be added that the questions which arise for determination in the assessment of Excess Profits Duty are often identical with questions which must be primarily decided for purposes of Income Tax. Where such questions have been decided by the District Commissioners of Taxes (the authorities by whom Income Tax assessments are—by statute—made) upon certain evidence, and the Board have been satisfied with the correctness of that determination, the Board have no ground for requiring a different mode of evidence in that connection before making an assessment to Excess Profits Duty."

The second point has reference to the general question of the examination of Excess Profits Duties. The initial step was to ask for the Accounts in certain selected cases. Except in two cases the documents furnished in reply did not include the Profit and Loss and Trading Accounts with Balance Sheets for the Accounting and pre-war periods.

In reply to a further Reference Sheet calling for these particulars, it was stated that the Accounts having been furnished for Income Tax purposes were the property of the District Commissioners of Income Tax, and were not therefore at the disposal of the Board for production to the Auditors.

The Comptroller and Auditor-General pointed out that under their Departmental instructions Surveyors obtained such Accounts, which in two cases had been supplied with Excess Profit Duty Returns. In reply, the Board of Inland Revenue considered that they were precluded from supplying Accounts which were the property of District Commissioners.

The point was pressed in a further query, and in reply the Inland Revenue undertook to "approach the Commissioners to whom the respective documents belong with a view to ascertaining whether these Commissioners would permit their production."

The result was generally satisfactory, the documents being produced, but the Commissioners of Paisley and Glasgow declined to permit production.

As a result of further correspondence, the Board of Inland Revenue agreed to bring pressure to bear on these Commissioners to produce the required Accounts, and to intimate to them that the Comptroller and Auditor-General had stated that if they are unable to modify their present view it will become his duty to bring the matter before Parliament for any action they may think fit.

The question has not yet been settled. The Public Accounts Committee may desire to be informed of the result by the Comptroller and Auditor-General in due course.

APPENDIX No. 8.

PAPER handed in by Mr. *Roland Wilkins*, C.B., 2nd May 1918.

MEMORANDUM ON POST OFFICE PENSION LIABILITY AND RATE OF INTEREST TO BE EMPLOYED, WITH TREASURY COMMENTS THEREON.

In the Questions (1274 to 1276) of the proceedings of 1916 the question as to the rate of interest to be employed was briefly stated from the two points of view. On behalf of the Post Office (and the Public) I suggested that the Actuary's calculations of the allowance for Pension Liability based on a 3 per cent. rate of interest should be recast on a rate of interest approximately equal to the rate that the Telephone undertaking is paying for the money it borrows. In 1916–17 Telephones were paying 5 per cent. for its long-dated loans and 5⅜ per cent. for its shorter loan from the Exchequer,* the anomaly of the Telephones lending its own money at an obsolete rate of interest (3 per cent.) and borrowing money at a current rate (5 per cent. or over) is more pronounced now than it was two years ago. And it is this anomaly I am to ask the Committee to consider and amend.

The Treasury reply to my previous submission was that regard must be had to the past as well as to the present and to the future, and that *if* the imaginary Pension Fund money has been invested in Consols or any other security the past accumulations would be seriously depreciated. The second point of the Treasury reply is that no alteration had been made by insurance companies in their charges for annuity business. The matter then dropped.

On behalf of the Post Office, I am now to offer the following observations for the consideration of the Committee with a view to a settlement of the case.

1. The first objection of the Treasury is that *if* the money had been invested in Consols, &c., there would be a serious depreciation to wipe off. *This is* no doubt true on the double hypothesis† that the money was invested in Consols and had to be sold at a loss; but as a matter of fact Telephone Revenue is paid week by week into the Exchequer and *pro tanto* reduces the borrowing of money by the Exchequer at the current rate. Moreover, with a growing service like the Telephones, there can for many years be no question of selling its hypothetical Pension Fund investments; with the growth of Telephones the inflow to the fund must exceed the outflow.‡

TREASURY COMMENTS.

See Statement "A" enclosed.

* This is not quite accurate. In 1916–17 Telephones were paying much lower rates on borrowing incurred in earlier years. (*See* table annexed to Post Office Memorandum.)

† The hypothesis that the constructive Pension Fund should be assumed to be invested in first-class long-dated securities is the basis of the whole calculation, and was accepted "with satisfaction" in the Post Office letter of 7 November 1917 (paragraph 7).

‡ This is common ground between the two Departments. But no commercial firm could afford to ignore a capital deficiency on a pension fund.

2. The second objection of the Treasury reply (that the annuity rates have not altered) no longer applies, as the Government annuity tables now provide tables of purchase rates when the average price of £100 Consols is between £55 10s. and £57 2s. 6d, and also when the price is below £55 10s.

I may add that in computing the capital cost of the existing schemes for pensions of officers and men of the Army and Navy and of their families and dependants, Sir Alfred Watson, the Government Actuary, adopted a basis of 4 per cent. (free of income tax). §

3. Even if the Telephone Pension money had been invested in Consols when they stood much higher than they do now, it is an open question whether the Telephone subscriber of to-day could properly be called upon to pay higher rates of subscription, or could properly be refused a reduction of those rates on the ground that in past years the money had been invested in Consols and that he (the subscriber of to-day) must make good the deficiency. For it must be remembered that the object of the Telephone commercial accounts is to show the financial result of the undertaking in the year under review.

4. The Department, basing its calculations on the Consulting Actuary's statistics, has worked out the percentages of salaries and wages proper to the Pension Fund at each decimal point from 3 per cent. (the rate given to the Actuary) to 5 per cent. It is, therefore, in a position to calculate the Pension money of the Telephone undertaking required in any year at the same rate of interest as the Telephone undertaking is charged for its borrowings.

5. The Department contends that *in its accounts on commercial lines* it should follow commercial practice and use its own Telephone money on its own Telephone business, or if for reasons of convenience it both lends and borrows, it should do so at about the same rate; it certainly ought not to be forced to borrow at a current (high) rate and invest its money at an obsolete (low) rate. It proposes, therefore, that the Pension Liability charge should be calculated on the basis of a rate of interest fixed year by year at the lower of the two rates charged, either by the National Debt Commissioners or by the Treasury for capital advances in that year, rounded off, if not expressed in quarters, to the next quarter per cent. below.

6. That a revision on these lines is proper is fully confirmed by the Consulting Actuary himself, who wrote to me as follows:—

> "The valuation of Post Office employees for pension liability has been made at 3 per cent. interest, that rate having been fixed before there was any thought of war, and it is now of course altogether out of date."

7. An additional reason for taking the current rate of interest for these Pension Fund calculations is that in present circumstances it is not practicable to forecast what the rates of interest will be in future; and if the calculation is reviewed year by year you get *the true average rate*, and this is roughly what the 3 per cent. rate represented before the war.

General Post Office, *Charles A. King.*
April 1918.

Paragraph 2.—The relevance of these comparisons is vitiated by the fact that both of the instances cited refer to new services where the question of past investments does not arise.

§ It should be made clear to the Committee that it must not be inferred from this reference to Sir Alfred Watson that he lends the weight of his authority to the present Post Office proposal. This is far from being the case. His opinion regarding it is shown in the correspondence below.

Attention is drawn to the fact that in the interval between the Treasury letter of 2nd February 1918 and the meeting of the Committee Sir Charles King invited Sir Alfred to endorse the calculations of the "amateur actuary" of the Post Office and that he entirely declined to do so. It is proposed to circulate this correspondence to the Committee (omitting the "amateur actuary's" name) provided that the Post Office raise no objection. It is of material relevance to the point at issue.

Paragraph 3.—The contention is quite untenable. It is like arguing that in 1918 a shareholder in a company is not affected by the fall in the value of Securities purchased by a Depreciation or Reserve Fund before the war. Further, the logical inference from it is that higher interest should be charged to the Telephone undertaking on advances made to it before the war. The principle is far-reaching, and, if admitted, would have to be applied all round.

The accounts for 1916–17 do not show the full debit in the year under review because owing to war conditions full expenditure on maintenance has been impracticable. (*See* the Engineers' qualified certificate on pp. 11 and 18 of the Accounts.)

Paragraph 5.—It is common ground that commercial accounts should follow commercial practice. But the remainder of the paragraph is a *non sequitur*, and does not follow from this principle.

Paragraph 6.—This paragraph may give a misleading impression. So far as the Treasury is aware the Actuary did not have before him or endorse the present proposal of the Post Office This letter is understood to have been, in fact, written in March 1916, and it is suggested that the Post Office should produce it. The proposal appears to be based on a misinterpretation of the actuarial results. The contributions allocated to a particular year cannot be isolated from the rest.

A.

STATEMENT of the rates of interest charged in the Telephone Accounts for Loans.

Year.*	Long dated Loans (National Debt Commissioners)	Short-dated Loans (Treasury Bill Rates)	Year.*	Long-dated Loans (National Debt Commissioners)	Short-dated Loans (Treasury Bill Rates)
1911 - -	3	—	1915 - -	4 / 4½	4⅜
1912 - -	3½	3½			
1913 - -	3½	3	1916 - -	5	5⅜
1914 - -	3½	3⅜	1917 - -	5½	?

* The Treasury Bill rates relate to the financial year.

CORRESPONDENCE between Mr. *Roland Wilkins*, C.B., and Sir *Alfred Watson*, the Government Actuary.

24th April 1918

Dear Sir Alfred Watson,

During the course of a controversy before the Public Accounts Committee as to the Pensions liability of the Telephone System, Sir Charles King introduced your name, and I am sending you herewith—

(i) The Minutes of Evidence of the 11th and 18th instant.

(ii) The correspondence between the Departments referred to therein

(iii) The Post Office Memorandum on the subject with draft Treasury comments,

which will enable you to follow the course of the discussion.

These papers are confidential for the present, and had better not pass out of your own hands.

Put in the simplest form, the gist of the Treasury contention is—

(*a*) That the depreciation of the hypothetical investments in the past cannot be ignored;

(*b*) That the contributions allocated to a particular year cannot be isolated from the rest;

(*c*) That, if any change is to be made, it should be on the lines indicated in the penultimate paragraph of the Treasury letter of 2nd February.

(*d*) That, however, the best and simplest course is to make no change for the present, and to have an expert revaluation after the war. (The moment at which the accounts assume especial practical importance is when a revision of the Telephone Tariff is in contemplation.)

In view of your authoritative position as Government Actuary your opinion would be of great value, and we should be much indebted if you would advise both on the foregoing points and generally. Had we known what course matters would take we should probably have asked you to assist us at an earlier stage.

We have always felt some doubt whether the Post Office possessed sufficient expert experience to enable them to speak with certainty on actuarial questions. (To quote one instance, in 1906 they advised their then Secretary to state before the Hobhouse Committee (Q. 222–3) that, subject to certain assumptions, the percentage of pension to salary in the case of an unpromoted London sorter worked out at about 8½.)

It may be, however, that our impression is not well founded; and if you have reason to take the contrary view, will you kindly tell us so?

It may prove desirable to publish this letter and your reply; but I am not quite certain about this at present.

Yours, &c.
(Signed) *Roland Wilkins.*

Wellington House, Buckingham Gate, London, S.W. 1.
1st May, 1918.

Dear Mr. Wilkins,

1. At your request I have considered the question at issue between the Treasury and the Post Office with reference to the Pensions liability of the Telephone System. It will perhaps be convenient if I state at once that in my opinion the contentions of the Post Office, as advanced in the Memorandum submitted by Sir Charles King to the Public Accounts Committee, are untenable, and are fully answered in the reply made by the Treasury.

2. The members of the staff of the Post Office Telephone System are entitled to the ordinary superannuation benefits of the Civil Service (subject to certain modifications in the case of the staff transferred from the National Telephone Company) and for the purpose of preparing a hypothetical Commercial Account showing the financial working of the Telephone System, it is necessary to ascertain the sum which would be contributed annually to the Pension Fund if the Department were a commercial company. This contribution, which has been actuarially calculated, is a fixed percentage of the salary paid to the individual throughout the whole period of his service and save that its product varies with the amount of the salary is in no way different from a premium paid to a Life Assurance Company to secure a payment at death or a deferred annuity or, as is the actual fact, a combination of both of these benefits.

3. Under the instructions given to the Actuary on 4th March 1914 the contribution was to be calculated on the assumption that the accumulating funds would be invested to produce interest at the rate of 3 per cent. per annum. The instructions further required the Actuary to ascertain the sum to which, in effect, the Fund would have accumulated up to 1st April 1912 if the contributions which he was instructed to assess had been regularly paid in respect of previous service. The total amount of this hypothetical fund as thus determined by the Actuary appears to have been about £3,800,000.

4. It is now contended by the Post Office (though there is nothing to show that the point was taken in 1914 when the terms of reference to the Actuary were settled) that since the market rate of interest varies, the assumption of a fixed rate in calculating the contribution to the Pension Fund is wrong; and it is proposed that the charge should be calculated on the basis of a rate of interest fixed year by year at the lower of the two rates charged either by the National Debt Commissioners or by the Treasury for capital advances in that year.

5. The Treasury replies firstly, that the contributions are calculated on the basis of an unvarying rate of interest throughout the whole duration of life of the persons assured and that the contribution of each year cannot be isolated from that of past or future years and adjusted according to the rate of interest prevailing in that year. This is undoubtedly correct. The point, indeed, is one upon which there is no room for difference of opinion. Secondly, the Treasury says in effect that if, consequent upon a change in the value of money, the realisation of an enhanced rate of interest in the future is to be assumed, that rate must be such as can be earned on the whole funds including present accumulations; this, however, involves the reduction of the assets by the revaluation of the existing securities, since these, being, in the nature of the case, of a permanent character, and by hypothesis such as to yield no more than 3 per cent. per annum, must have depreciated in value proportionably to the rise in the market rates. The broad question at issue thus involves, it is suggested, a balancing of opposing factors. This also must be true.

6. The principles involved admit of plain statement. The pensions are the product of all the accumulated contributions, and if it is sought to ascertain the value of the liability at any given moment and thence to deduce the contributions that ought to be paid in future to support it, consideration must be given to the amount of the contributions paid in the past, and to the amount of interest produced in the past and to be produced in the future, by the investments in which those contributions have been placed. If it is desired to vary the contributions from time to time in accordance with changing circumstances (and this may well be necessary) there is only one way in which it can be effected; that is, to value the Fund periodically and to adjust the contributions for the future according to the result of that Valuation, reducing the percentage if the Valuation shows a surplus and increasing it if a deficiency is disclosed. That, I take it, is the plan proposed by the Treasury; there certainly is no other.

7. Sir Charles King supports his proposition by reference to the system on which Government Annuities are sold at prices varying with the price of Consols. This seems to me quite irrelevant. It is true that when the National Debt Office sells an annuity it calculates it on the rate of interest represented by the price of Consols on the day on which the transaction is entered into, but having at once invested the purchase price in Consols to yield that rate the transaction is ended, once and for all, so far as investment is concerned. In the case of a Superannuation Fund, consideration must be given both to the rate earned by past accumulations already invested and to the rate to be obtained from investments to be made in the future. The two kinds of transaction are thus fundamentally different.

Again, it is sought to find support for the proposals in the fact that in computing the capital cost of the new schemes for War Pensions, I myself adopted a basis of 4 per cent. free of income tax. Sir Charles King, in his evidence before the Committee on the 11th ultimo, refers to his correspondence with me on this point wherein it is explained that I had chosen 4 per cent. because the Government had, at the time, just issued a War Loan in which one alternative was 4 per cent. free of income tax. Sir Charles King appears to have overlooked the difference between the two cases. In calculating the value of War Pensions, &c., I was merely showing what single capital sum with its future interest earnings the national obligations represented, *i.e.*, the amount of the Fund which, supposing the pension liability to have been met in that way, the Government would have set up, at the beginning of the War. I had not to consider either old investments, their interest product and their possible depreciation, or the future investment of moneys hereafter accruing. In the case of the hypothetical Superannuation Fund of the Telephone System, both of these factors have to be considered.

8. I cannot gather that the Post Office has taken actuarial advice upon this question. The proposals made are such as no actuary could approve; and I should say that if competent professional advice has been obtained it must have been disregarded. It is true that the Post Office quotes from a letter of the Consulting Actuary a suggestion that the rate of 3 per cent. is "altogether out of date," but this can only mean that in the Actuary's opinion a higher fixed rate than 3 per cent. should be assumed, not, as the Post Office proposes, that the contribution should be varied from year to year as the rate of interest changes.

9. In conclusion, I would suggest the inadvisability of altering the conditions until the full effect of the War upon the liabilities of the hypothetical fund can be investigated. Interest and depreciation may be the most important of the disturbing factors which the War has created, but they are certainly not the only ones, and an adjustment at the present time, made with reference to these factors alone, would be premature.

I am, &c.,
Alfred W. Watson,
Government Actuary.

R. F. Wilkins, Esq., C.B., The Treasury.

APPENDIX No. 9.

PAPER forwarded by Sir *Harry Livesey*, K.B.E., 25th April, 1918.

STATEMENT FOR PUBLIC ACCOUNTS COMMITTEE.

Vide Question 1419.

The purchase in question was of gunshields, which are built-up structures composed partly of armour quality material. The technical department responsible for these gunshields is that of the Director of Naval Ordnance, but papers relating to such purchases were referred to the Superintendent of Contract Work, as he was the technical officer responsible for armour.

Tenders were obtained at the rate of £585 each. The D.N.O. stated: "The price quoted is considered to be not unreasonable."

The S.C.W. stated: "The price per shield asked for appears to S.C.W. to be very high and not one which should be accepted unless a satisfactory explanation can be given. It will be seen that the price corresponds to a rate per ton of about £180, for which no reason is given. If the shields were made as an armour quality casting, as originally suggested by S.C.W. for consideration, the price would be little more than half that now quoted for a built-up shield. No objection is seen to placing the orders as recommended by D.N.O., but it is proposed to inform firms that the price of £585 per shield corresponding to about £180 per ton is considered very high, and to ask for a substantial reduction. S.C.W. would prefer, if time will allow, that the orders should not be placed until the price is satisfactorily settled . . . the ballistic deduction scale not to apply in this case if the price is reduced by the firm to the satisfaction of the Admiralty."

The D.N.O. saw no objection to the action proposed by S.C.W., except as regards postponing placing the orders until the price was definitely settled.

Orders were therefore placed and the firms were asked for a reduction as proposed. The contracts contained no penalty clause for late delivery.

In reply the firms adduced as reasons:—

(1) The intricate nature of the work;

(2) The price of materials and the character of the work involved and the small number of shields ordered from that firm;

(3) The amount of work involved; the shields had to be made to jigs and gauges so as to be absolutely interchangeable and the quick delivery required,

they offered reduction of £35 per shield.

S.C.W. stated that from an armour point of view the reduced price was still considered to be too high. The representative of one of the firms, who usually represents these firms in matters of this kind, verbally informed him that he considered the reduced price no more than fair, based on his experience of other somewhat similar shields and on the large amount of work involved: this was due to the stringency of the requirements for interchangeability, making the shields to jigs and gauges, cost of erection, etc. "S.C.W. is not aware of D.N.O.'s requirements in this matter; but, as above stated, looked at from the point of view of an ordinary built-up armour shield, the price is considered to be too high, especially having regard to the quality of front plate, side plates and roof, and the omission of scale for ballistic deduction."

D.N.O. asked that firms should be asked for a quotation for some further shields required, leaving the question of cost to be discussed on receipt of these tenders.

The firms stated their inability to reduce, giving as reasons:—

(1) The shields were costing more to make than they anticipated, and they received an order for 8 only against a minimum quantity of 17 quoted for. (This firm's order was not increased.)

(2) The shields were already costing a great deal more than they anticipated owing to the great accuracy of interchangeability that was being demanded by the Gun Mounting Department and through reducing their original price they feared that in all probability they would make a loss on them.

The others gave no reasons.

D.N.O. proposed to accept the amended figure "the same being considered not unreasonable."

S.C.W. had no further remarks to add concerning price.

D. of C. therefore accepted the opinion of the D.N.O. as the technical officer responsible.

APPENDIX No. 10.

PAPER forwarded by Sir *David Shackleton*, K.C.B., 25th April 1918.

Ministry of Labour, Montagu House,
Whitehall, London, S.W.
25th April 1918.

Sir,

With reference to the letter from this Department of the 17th April, I am directed by the Minister of Labour to forward herewith a copy of a memorandum on the subject of Repayments to Associations under Section 106 of the National Insurance Act 1911, which the Committee desire to have prepared.

I am, &c. (Signed) *D. J. Shackleton.*

Clerk to the Committee of Public Accounts,
House of Commons, S.W. 1.

APPROPRIATION ACCOUNT 1916-17.

CLASS VII., VOTE 7—MINISTRY OF LABOUR.

REPAYMENTS TO ASSOCIATIONS UNDER SECTION 106 OF THE NATIONAL INSURANCE ACT, 1911, AND SECTION 14 OF THE NATIONAL INSURANCE (PART II. AMENDMENT) ACT, 1914.

The enquiry referred to in the evidence was conducted by the Committee on Audit of Unemployment Benefit appointed at the instance of the Treasury. There has been no subsequent Inquiry.

The recommendations contained in the Report of the Committee on Audit of Unemployment Benefit, dated 26th October, 1916, were adopted by the Treasury and by the Employment Department of the Board of Trade (now Ministry of Labour). A notification of this fact, together with a copy of the Committee's Report, was sent to all Associations in February, 1917. The Associations were at the same time informed that it was desired to bring the Committee's proposals into operation not later than the first pay week in the third financial quarter of 1917; thus allowing the Associations a reasonable period in which to make all necessary arrangements for giving effect to the recommendations.

There are at the present time approximately 435 Associations entitled to claim repayments under the sections mentioned above.

No modification has been pressed for or allowed in respect of the method of proving payment or the centralised procedure, as recommended by the Committee.

Such modifications as have been pressed relate to:—

(1) the premises on which Vacant Books shall be kept;
(2) the method of proving unemployment of members.

As regards (1), the Committee on Audit recommended, inter alia, that it was desirable that the Vacant Book should be kept at an Employment Exchange or Local Agency of the Unemployment Fund where reasonable facilities exist, and that, if the vacant book was not kept at an Employment Exchange or Local Agency, it should be kept in custody of an officer of the Association or other responsible person approved by the Board of Trade. Further, that approval should not be given for the Vacant Book to be deposited at licensed premises, within the meaning of the Licensing Acts.

A number of Associations raised objection to the condition that Vacant Books should not be kept on licensed premises. The grounds of objection were as under:

(*a*) In some cases no other accommodation was available, or, if available, could only be obtained at a considerable cost to the Associations for rent.

(*b*) Vacant Books had been kept for years at such premises, and the force of custom created an almost insuperable obstacle to their removal.

(*c*) That if the recommendation was based on the assumption that books were not under proper supervision when kept on licensed premises, the associations asserted that such was not the fact, and that supervision was as effective as when books were kept elsewhere than at Employment Exchanges or at Association's offices. Moreover, the Associations pointed out that they themselves had a very direct interest in the proper supervision of the Vacant Books.

(*d*) That the recommendation was an unjustifiable interference with individual liberty of action in a domestic matter.

Before making representations to the Treasury on this subject the Department examined the objections raised by the Associations with a view to ascertaining whether they were well founded. In the result, the Department were satisfied on the point, and the Treasury were approached with a view to obtaining their assent to a relaxation of the Committee's recommendations in this respect. After some correspondence between the two Departments, the Treasury on 15th August, 1917, agreed to books being kept on licensed or other premises, provided that:—

(1) careful supervision of the Vacant Books by the Associations was insisted upon;

(2) periodical inspection of the Vacant Books by the Employment Department was made;

(3) if supervision by the Associations was found to be unsatisfactory, they would at first be warned that payment would be withheld unless supervision was made satisfactory. If subsequently it was found that the supervision was still unsatisfactory, payment under the Section was to be withheld until proper supervision was maintained. The reports of the inspectors were to be available, if required by the Comptroller and Auditor-General.

As regards the second point on which modification of the Committee's recommendations was pressed, the approved procedure had been generally carried out by Associations. It should be pointed out, however, that the Committee in their report recognised that it might be desirable to allow some modification as regards both proof of payment and proof of unemployment, in the case of Associations "which prove to the satisfaction of the Board of Trade that, owing to special trade conditions, the circumstances in which they pay unemployment benefit are exceptional," and the Committee, in fact, suggested modifications for Associations of textile workers and miners (see paragraphs 15, 17, 18 and 19 of the Report of the Committee on Audit).

Representations with a view to obtaining modification of the recommendations of the Committee as regards the method of proving unemployment were received by the Employment Department from associations of workmen in several industries, and steps were taken by the Department in each case or group of cases with a view to ascertaining whether the modifications requested were reasonable and such as the Minister of Labour would feel justified in supporting. Representatives of the Associations concerned were seen, and, on the evidence

furnished by them, the Department were satisfied that there was a case for granting a relaxation of the general rules. The Treasury were accordingly approached in the matter and agreed to the following concessions being granted:—

(i) *Textile Workers* (160 *Associations*)

(*a*) The certificate system of proving unemployment arising from the total stoppage of a mill has been extended to cases of partial stoppage (and where some departments but not all are closed).

(*b*) In cases of unemployment (not due to the total or partial stoppage of a mill) where signature of Vacant Book is required—signature on 2 days per week has been conceded in lieu of daily signatue, subject to the condition that the Associations will undertake to require signature on alternate days when the rate of repayment is increased from one-twelfth to one sixth—the maximum prescribed in the Section.

(ii) *Glass Bottle Workers* (8 *Associations*).

Weekly statements of unemployment certified by representatives of Associations, supplemented by declarations of unemployment by members are accepted in lieu of signature of Vacant Book.

(iii) *Journalists* (2 *Associations*).

Declaration of unemployment by member claiming, supported by officials or other members of the Association is accepted in lieu of signature of Vacant Book.

(iv) *Laceworkers* (3 *Associations*).

Declarations of unemployment by the unemployed member, supplemented by certificates given by members employed at the same factory, are accepted in lieu of Vacant Book signatures for members unemployed through waiting for orders or material. Members out of a situation may sign the Vacant Book on alternate days instead of daily.

(v) *Shop Assistants* (1 *Association*).

Endorsement of Vacant Tickets by Association officials or Employment Exchange Managers on 5 days per week instead of on 6 days has been conceded.

(vi) *Miners* (1 *Association*).

In one Association of Miners endorsement of Vacant Tickets or Cards by Association officials on alternate days has been conceded in lieu of a bi weekly roll call referred to in the Committee's Report.

It will be observed that in general the methods of proving unemployment recommended by the Committee have been maintained. It is only where the circumstances are exceptional that the ordinary rules have been relaxed as contemplated by the Committee, owing to special trade conditions.

APPENDIX No. 11.

PAPER handed in by Sir *Alfred Eyles*, K.C.B., 18th April 1918.

No. E. 197/714.

12th January, 1918.

SIR,

My Lords Commissioners of the Admiralty have had under consideration your letter of the 3rd instant, No. 6621, on the subject of the delay in the rendering of Bill Vouchers, Files of Papers, replies to Queries and Reference Sheets, Store Accounts of Naval Bases and Equipment Accounts of Air Stations.

In the opening paragraph of your letter you state that no reply has yet been received to your earlier letter of the 1st September last (No. 6621/346) on the same subject. On this point my Lords desire me to state that they understand that, since the receipt of this earlier letter, the representatives of the Accountant-General of the Navy have been in almost daily communication with your own Officers with regard to the outstanding documents referred to in that letter.

It was indeed arranged some time ago with your Principal Officer at the Admiralty that as soon as the Auditors had been able to dispose of the Bill Vouchers and Files of Papers furnished to them as a result of the special efforts that had been made, revised and detailed statements would be furnished of the vouchers and papers still outstanding in order that further steps might be taken to assist your Department. These revised statements have only now been furnished and in the circumstances it was not expected that a formal reply would be required to the letter of the 1st September until the full effect of the action taken could be seen.

My Lords note that in the letter now under reply you suggest whether after an experience of three years of War conditions a system cannot be devised for the prompt delivery of documents. The responsible officers of the Admiralty are desirous of doing everything that is possible to secure that end, but the difficulties to be contended with under present conditions are very great. As the War goes on the amount of work, instead of diminishing, consistently increases, and so does the wastage of staff. Moreover, the scattered character of the Admiralty accommodation (the Admiralty occupies some 20 different buildings), the constant sub-division and re grouping of Departments rendered necessary by War conditions, and the continual removal of Branches of the Accountant-General's Department and of other Departments to fresh quarters make it increasingly difficult to ensure that every document that your Department should see is furnished at the proper time.

One of the great difficulties that the Admiralty has to contend with at the present time, and this no doubt is also experienced in your own Department, is that of obtaining and retaining sufficient staff who are competent to deal with work which is not merely routine, and when in addition to a temporary and largely inexperienced

staff this staff is required to work under indifferent conditions as regards accommodation, my Lords are inclined to think that your criticism that the present position is very unsatisfactory is scarcely merited. With all these deficiencies, the fact remains that not only are payments made with regularity and promptitude, but, except for an almost infinitesimal proportion, the necessary documents are immediately brought to the notice of your Department. There must always be a residuum of papers which cannot be made immediately available for the use of your Officers, either because further immediate action is required or it is necessary to refer them to other Departments for notation. Further, under present conditions of inexperienced and changing staff, continual removals of Branches and Departments and of crowded accommodation, a small percentage of actual loss must be reckoned with.

With regard to the special measures which were taken on the receipt of your earlier letter of the 1st September, I am to state that every Department was circularised with regard to the papers for which they were responsible, and the attention of all Heads of Departments was drawn to the necessity of rendering assistance to your Department in the performance of their important work. In the Department of the Accountant-General, members of the staff have been almost continuously employed in obtaining Bill Vouchers and Papers from the various Branches and Departments to which they had been referred for further action, and this work is still being continued. I am also to mention that long before the receipt of your letter special directions had been given by the Accountant-General that everything possible was to be done to assist your Department in obtaining the documents required by them. The special steps taken were in a considerable measure successful. The following shows a comparison between the figures furnished in your letters of the 1st September, 1917, and 3rd January, 1918, respectively:—

	1914–1915.	1915–1916.	1916–1917.
	1st September, 1917.		
Bill Vouchers	61 (representing £38,550)	274 (representing £201,417)	2,966 (representing £5,112,613)
Papers	15 (All C.P.)	402 (C.P. 254)	753 (C.P. 502)
	3rd January, 1918.		
Bill Vouchers	55 (representing £35,000)	228 (representing £159,000)	562 (representing £721,000)
Papers	8 (All C.P.)	229 (C.P. 144)	*734 (C.P. 426)

* Includes 215 requisitioned since 1st September.

So far as the figures for 1914–1915 are concerned, it is feared that these must be regarded as an almost irreducible minimum. It is hoped that it may be possible to furnish a few of the Bill Vouchers, but a deficiency of 55 out of a total of 125,739 for the year (about ·044 per cent.), and 8 papers out of a total of many thousands cannot, in my Lords' opinion, be regarded in the circumstances as unsatisfactory.

With regard to 1915–1916 and 1916–1917, it is hoped that the efforts that are being made will result in a considerable reduction of the totals, but I am to point out that the deficiency is in reality very small, compared with the total of the Bill payments which in 1916–1917 amounted to 267,849, representing an expenditure of over £200,000,000.

I am to add, with regard to the outstanding Store Accounts, that reports are being obtained from the several Accounting Officers, and a further communication will be made.

I am, &c.,
(Signed) O. MURRAY.

The Comptroller and Auditor-General,
Exchequer and Audit Department,
Victoria Embankment, E.C.

APPENDIX No. 12.

PAPER handed in by Mr. *S. Dannreuther*, C.B., 30th May 1918

SUMMARY OF IMPROVEMENTS IN INVOICING MINISTRY ISSUES.

Twelve months ago there were four main sources of issue:—Stores, American purchases, National Factories and Contractors—and on these sources there were some thirty-five to forty people in the supply sections drawing materials. It was evident on examination that due record of the movement of goods very frequently failed to reach the Accounting Department from Stores or Factories, and in the case of contractors, the charge was very belated, because the consignee was only charged when the consignor's bill was paid, and as Committees paid bills, it was very obvious that there could be no head office control over charges to consignees emanating from Committees. In addition to this lack of basic knowledge, even when it was secured, it was frequently impossible to ascertain terms of issue. We therefore devoted ourselves, first, to securing a reliable control of movements of material, not only to inform us of movements of material, but also from what contract it had come, to which contract it was chargeable, and the terms of charge. Three documents govern movements of material: first, Issue Warrant, or order to move; secondly, Advice Note, or evidence of movement; and thirdly, Inspection Note, the name of which indicates its function. We have arranged during the current year that no movement of material

can be ordered except on an Issue Warrant made out from the Central Stores Department, and such Issue Warrant must contain all necessary information to make accurate charges.

Our first step was to use advice notes signed by consignees and duly checked against issue warrants, as the basis of stores issues, and there was an immediate and heavy increase in the value of stores charged to contractors and Allies, without any corresponding increase that we could trace in the actual movements of material, thus indicating that there had been some failure in the past. We then proceeded to use the copy of the advice note which had come direct to Central Stores Department from the consignor, instead of waiting for the copy which was signed by the consignee. Our first trial indicated somewhat loose weighing on the part of certain stores having inadequate facilities, particularly at ports, and the system led to many disputes, but we thought it better to improve the weighing and counting than to discontinue the system, which has now been done. This use of the consignor's advice note was a very radical improvement in promptitude.

Later, this system, which was first confined to stores, was extended to all American purchases, and as a final step to all movements from contractors' works, so that all goods are now charged on a commercial basis of shippers' weights as soon as shipped.

An additional advantage of this system is that we are able before payment to verify that every bill has been reported on a store ledger, or charged to consignee, since the charge takes place some time before the contractor can secure the consignee's receipt and render his bill.

As the improved system came into force certain deficiencies of the earlier methods were revealed. For example, since we had relied on charging consignee on payment of bill of consignor—a relic of peace times—where contractors were being financed on account of prices not being fixed, no charge to the consignee had been made; and while it would eventually have been charged when the consignor's bill was rendered, we were in the position of having paid 80 per cent. of the consignor's price, with no charge to the consignee, so that in this case the date between shipment of goods and charge to consignee might be many months. Also, having noticed the increase in stores issues, apparently only due to the improved system of accounting, it was obvious that it was our duty to trace items uncharged in prior times. We therefore employed a large number of auditors to compare our records with contractors—securing the statements in the form of (*a*) goods supplied to contractors, and (*b*) goods supplied by contractors. The result of this was that consignor contractors would inevitably claim for everything that they had delivered, and we were thus not dependent on the consignee's statement alone. We have, moreover, made progress in exhausting all records of issues by checking consignee's statements against the ledgers and tracing the residuum.

APPENDIX No. 13.

PAPER handed in by Mr. *G. L. Barstow*, C.B., 4th June, 1918.

AN AGREEMENT made the 15th day of January, 1915, between His Majesty's Army Council and The Commissioners for Executing the Office of Lord High Admiral of the United Kingdom of Great Britain and Ireland (hereinafter called "His Majesty's Government") on behalf of His Majesty of the one part and Messieurs J. P. Morgan and Company, of 23, Wall Street, in the City and State of New York, U.S.A. (hereinafter called "The Commercial Agents") of the other part.

1. The Commercial Agents will, as from the date of this Agreement, place their services at the disposal of His Majesty's Government for the purchase of such goods and supplies as they may be instructed to buy in the United States of America.

2. The Commercial Agents undertake, in respect of the said purchase of goods and supplies, to use their best endeavours to secure for His Majesty's Government the most favourable terms as to quality, price, delivery, discounts and rebates, and also to aid and stimulate by all the means at their disposal sources of supply for the articles required.

3. The relations between His Majesty's Government and the Commercial Agents shall be that of Principal and Agent respectively.

4. The Commercial Agents are not to have any liability for delivery, quality, or prices of purchases, but are to be responsible solely as Agents for their good faith and best endeavour.

5. Full specifications will be supplied by His Majesty's Government through their duly accredited representatives, either directly or through Messieurs Morgan, Grenfell and Company, who will at all times have authority to act in London on behalf of the Commercial Agents. The responsibility of inspection to rest with His Majesty's Government, who will, if they think desirable, appoint representatives to inspect in the United States of America and accept on their behalf goods for shipment. The Commercial Agents shall co-operate fully at all times with the accredited representatives.

6. The Commercial Agents will use their discretion in employing such buying Corporations or experienced Brokers to effect purchases as may seem to them to be in the best interests of His Majesty's Government having due regard to deliveries, quality and price.

7. His Majesty's Government will repay to the Commercial Agents all commission, if any, paid to such buying Corporations or Brokers as may be employed; and His Majesty's Government shall receive all rebates, discounts, etc., which the Commercial Agents may be able to obtain.

8. The Commercial Agents shall have general supervision over and will in every way facilitate prompt shipment of goods, making all necessary arrangements within their power up to and including the actual shipment.

9. His Majesty's Government shall furnish the Commercial Agents with a list of all buyers of goods and supplies for the War Department now and from time to time acting for the said Army Council in the United States of America with full information regarding contracts already executed, orders now being filled and negotiations pending. All such buyers will be instructed to place themselves in touch with the Commercial Agents and to place no further orders (unless expressly instructed by His Majesty's Government to do so in particular cases) except through the Commercial Agents.

10. The Commercial Agents shall if required facilitate the completion and shipment of orders now being filled and shall, if required, assist in the completion of contracts now being negotiated, but no commission shall be payable for these services unless His Majesty's Government expressly state that they will pay commission thereon in respect of any particular negotiation.

11. His Majesty's Government shall pay to the Commercial Agents, in compensation for their services, a commission of two per cent. upon the net price of all goods and supplies purchased through them under this Agreement until such net price shall amount in the aggregate to a sum of 10,000,000 pounds, and thereafter a commission of one per cent. upon any excess beyond such aggregate amount of 10,000,000 pounds. His Majesty's Government shall pay at the outset the sum of £10,000 for outlays and as a retaining fee, which sum shall be credited against and absorbed by commissions as they accrue. The Commercial Agents will, as far as possible, purchase all goods direct from the Manufacturers, and their commission before-mentioned will be payable upon the net price of the goods delivered at the Factory, less all rebates and discounts and exclusive of all commissions, freight and other out-of-pocket expenses. In the case of goods which it is found necessary to purchase either from Manufacturers or from Merchants' Agents or otherwise on terms of delivery at some place other than the Factory the net price, for the purpose of calculating commission, shall be deemed to be the invoice price at the place of delivery, less all rebates and discounts and exclusive of all commissions, freight and other out-of-pocket expenses, provided that sea freight and all other expenses of or connected with shipment or transit by sea will, in every case, be excluded from the net price on which the commission of the Commercial Agents is payable.

12. The Commercial Agents shall keep special books for the recording of all transactions connected with this Agreement, and such books shall be open to the inspection of any Officer or Accountant appointed by His Majesty's Government for the purpose. Such extracts of these accounts, as may be required, shall be forwarded to London for inspection.

13. Subject as hereinafter mentioned, it is the intention of the said Army Council that orders on behalf of the War Department shall be placed through the Commercial Agents for the purchase of any goods or supplies which it may be desired to purchase in the United States of America during the currency of this Agreement, except purchases effected by or through the Remount Commission or their agents. It is also the intention of the Admiralty, with a view to secure co-ordination between the purchasing of Admiralty and War Department supplies of the same general character, to place their orders through the Commercial Agents upon the terms of this Agreement so far as in their opinion they are able conveniently to do so without undue interference with their established channels of purchasing their requirements in the United States of America.

14. The expressions of intention set forth in the last paragraph shall not in any way, however, be binding on His Majesty's Government, who expressly reserve the right to make purchases otherwise than through the Commercial Agents if, in the opinion of the said Army Council or the Admiralty as the case may be, there is good and sufficient reason for doing so. In so far as they may find practicable, and in order to avoid complications, His Majesty's Government will keep the Commercial Agents duly posted as to purchases, if any, made otherwise than through them.

15. Without prejudice to the generality of the provisions of the two last foregoing clauses, in cases where contracts providing for the delivery of specific goods at stated times and in agreed quantities have already been entered into, a further order for additional supplies, under an extension of such already existing contracts, involving no negotiations, may be excluded from the operation of this Agreement.

16. It is understood that the Commercial Agents will not make any undisclosed profit, directly or indirectly, out of purchases made through their agency, and in the event of the Commercial Agents being financially interested in the profits of any companies or firms from whom purchases may be made, a note will be attached to the record of the purchase for the information of His Majesty's Government giving particulars of the interest of the Commercial Agents in such companies or firms.

17. This Agreement may be terminated at any time by either party by notice transmitted by post or cable to the other, the notice to take effect as from the time when, in ordinary course of post or cable delivery, the same ought to reach the other. Notwithstanding such notice the Commercial Agents shall facilitate the carrying out completion and shipments of all outstanding orders placed through them.

Any notice by or on behalf of His Majesty's Government may be signed by the Secretary of the War Office or by the Secretary of the Admiralty.

As witness the hands of the parties hereto the day and year first before written.

Signed by Sir Reginald Herbert Brade, K.C.B., the Secretary of the War Office, in the presence of A.H.M. Robertson, Admiralty, Clerk.	R.H. Brade, for and on behalf of His Majesty's Army Council.
Signed by Sir William Graham Greene, K.C.B., the Secretary of the Admiralty, in the presence of O.A.R. Murray, Assistant Secretary, Admiralty.	W. Graham Greene, for and on behalf of the Commissioners for executing the Office of Lord High Admiral of the United Kingdom of Great Britain and Ireland.
Signed by Henry Pomeroy Davison, a partner in the firm of Messrs. J.P. Morgan and Company, in the presence of Robert Bacon.	J.P. Morgan and Company.

APPENDIX No. 14.

PAPERS handed in by Mr. *S. Dannreuther*, C.B., 4th June, 1918.

A.

MEMORANDUM No. 1 ON REPORT BY COMPTROLLER AND AUDITOR-GENERAL (PARAGRAPHS 22 TO 24) IN RESPECT OF CAPITAL ADVANCES IN RELATION TO EXCESS PROFITS OR MUNITIONS LEVY.

These paragraphs relate primarily to arrangements made prior to the 31st December, 1916, that is, during the period in which Munitions Levy was enforced, and during that period the allowances granted

to Contractors in respect of exceptional wear and tear on the probable gross post control values were arranged by the C.E. Division.

The historical sequence of events was as follows:—

(1) Endeavours were made to get Contractors to proceed with projected extensions in reliance upon the Rules under the Munitions of War Acts, and upon the footing that the value of the extensions would be ascertained after the war.

(2) But it was found impossible to get Contractors to proceed on these lines, and to accept the conditions of uncertainty which they would have involved. Most of the Contractors declined to proceed except upon the basis that a certain definite writing off should be conceded to them, so that they would know where they stood.

(3) The methods adopted in regard to these writings off have been subject to gradual change and development. In the first instance, pre-war values appear to have been taken as the main basis for fixing the writings off. Subsequently, it was recognised that although pre-war value was an element to be taken into consideration, the true test was the probable post war value, which of course to a large extent was a matter of conjecture and estimate.

Numerous discussions took place upon this subject, and Conferences were held with representatives of the Board of Trade and others with a view to obtaining data for estimating post war values, and gradually more or less definite standards of writings off came to be fixed, though these necessarily varied according to the nature of the business in regard to which the proposed extensions were projected. For example, in the case of Works engaged in the production of actual Munitions of War, such as Picric Acid, the continuance of which would be limited by the duration of the War, the standard was naturally different from what it was in the case, for example, of Works devoted to Iron and Steel Production, which would be continued after the War.

(4) At first these allowances were usually granted only as against Excess Profits, that is to say, they were contingent upon the Excess Profits obtained being sufficient to provide for them. Some Contractors, however, anticipating that their Excess Profits might not be sufficient for this purpose, insisted upon a guarantee by the Ministry, that in that event the Minister should make good the deficiency.

(5) Gradually, and more especially in regard to contracts subsequent to the 31st December, 1916, made with regard, not to Munitions Levy, but to Excess Profits Duty, it was found necessary in many cases to give the writing off in the form of an actual grant or contribution by the Minister, in place of the guarantee.

This system had many advantages. It enabled the Contractor to know exactly where he stood, and it also assisted his financial arrangements by helping to provide the funds required for the projected extensions. The grants usually only became effective on completion of the extensions to the satisfaction of the Minister, and this condition afforded a valuable incentive to the Contractors to get their extensions completed at the earliest possible date.

After the abolition of Munitions Levy, and when such grants were made in relation to E.P.D. the plan at first adopted in the contracts for extensions was to require Contractors to accept the grants or contributions made by the Minister in full satisfaction of the Contractors' statutory rights for special allowances under section 40, sub-section 3, of the Finance No. 2 Act, 1915. The effect of this was that the whole charge for such contributions fell upon the Ministry, and that amounts would have been collected in respect of E.P.D., which were really fictitious, because not subject to the statutory deductions under section 40 (3).

Accordingly, to rectify this, and with the approval of the Treasury, the method was changed in or about the month of November, 1917, and a new form of contract was adopted, under which, on a contribution being made by the Minister, the Contractor is put under terms to prefer his statutory claim under that section, and to pay over to the Minister whatever sums he may succeed in getting allowed by the Inland Revenue under that section up to the amount of the Minister's contribution and 80 per cent. of anything over that amount. All contracts now made in this Department proceed upon these lines.

(6) More or less definite standards of writings off for grants have now been fixed:—

(a) In respect of buildings.

(b) In respect of plant and machinery, which are not exceeded except with express Treasury sanction, though they must still vary according to the nature of the business carried on.

Care is taken in all cases to limit the grants to a reasonable proportion of the extra expenditure involved, and the form now adopted enables the Ministry, both by reason of the greater certainty afforded to Contractors, and of the financial assistance which the system of grants as against the estimate or guarantee presents, enables better bargains to be made with Contractors as regards the amount or percentage of contribution than was formerly the case.

Speaking generally, it is of course quite impossible to ascertain the probable post war valuations of buildings, plant and machinery, to any great degree of accuracy, as so many uncertain conditions have to be taken into account. Not only is this dependent upon such circumstances as the duration of the War, the nature of the peace, the future prices of materials, cost of labour and the like, but the important question of redundancy has also to be taken into account. A much greater degree of uniformity has however now been obtained in fixing the amount of such contribution or grants than formerly existed.

It may safely be asserted that without this system it would be quite impossible to induce Contractors to undertake the necessary extensions of their Works, or the production urgently required, and it is at least probable that the experienced Officers of the Ministry, who have the fixing of these standards, are as able to form a reasonable estimate of post war values as the Commissioners of Inland Revenue, upon whom that duty devolves under section 40 (3) of the Finance (No. 2) Act, 1915.

(Signed) *John Mann*,
Controller Munitions Contracts.

18/4/18

B.

MEMORANDUM NO. 2 ON REPORT BY COMPTROLLER AND AUDITOR-GENERAL (PARAGRAPH 22) IN RESPECT OF CAPITAL ADVANCES IN RELATION TO EXCESS PROFITS OR MUNITIONS LEVY.

The particular Rules to which reference is made in paragraph 22 of the Comptroller and Auditor-General's Report appear to be Rules 9 (a), (b) and (c) of the Munitions (Limitation of Profits) Rules, 1915. These Rules were based on memoranda of interviews which Mr. Runciman had had with certain of the principal Armament Firms prior to the inception of the Munitions Act.

The construction placed by the Controlled Establishments Division on Rule 9 (c), and which has been generally accepted by controlled owners, is that under that Rule the owner is entitled to write off the difference between the actual expenditure therein mentioned (provided that such expenditure has been reasonable and economical and the work carried out expeditiously) and whatever may be the value of the expenditure to the owner at the end of the period of control, and indeed it seems clear that this is an amount which the owner is entitled to write off in arriving at his excess profits under the Act.

The question of how this allowance should be arrived at was very carefully considered. It seemed clearly to be a question for gentlemen experienced in valuation, and it appeared on enquiry that it would be possible to get some of the leading engineers and valuers of the country to give their assistance to the Minister on these questions.

Accordingly the late Mr. H. Chatfeild Clarke, a Past President of the Surveyors' Institution, and Mr. Basil Mott, one of the leading Civil Engineers, and Mr. H. M. Jonas, the Receiver of Crown Lands were approached, and they stated that they were all prepared and that they thought some of their friends would be prepared, to give the Ministry their help gratuitously to deal with this question.

The considerations which mainly weighed in adopting this course were :—

(1) That it would protect the interests of the Exchequer against any extravagant or improper claim which might be made.

(2) That it would give the controlled owners confidence in spending capital and making extensions for munitions work desired by the Government, by assuring them that their claims for allowances in respect of this expenditure would be considered by the best talent available.

(3) That in the event of the controlled owners appealing to the referees against the Minister's decision as to allowances in respect of such capital expenditure, the Minister would be able to support his decision by the evidence of leading professional experts on such matters.

(4) That in these circumstances owners would not appeal to the referees unduly.

Almost from the passing of the Act controlled owners who were asked to make extensions to increase output began to enquire to what extent they would be allowed to write off the cost under this Rule 9.

The Ministry began to deal with these cases strictly in accordance with the Rule, that is to say, on the advice of the gentlemen above-named they agreed with the owner that he should have a provisional writing off in his accounts for the first period of assessment, but with the stipulation that at the end of the period of control the whole of the assets in question should be valued as required by the Rule, and that if the provisional amount which the owner had been allowed to write off proved too small, he should be allowed to write off the further sum necessary to write down the assets to their then value, and that if the provisional amount proved at the end of the period of control to have been too great, the owner would have to bring into account the difference.

Before long, however, controlled owners began to suggest that it would be more convenient to them if they could have the final amount of the writing off allowance fixed at once when they were making the expenditure for extensions. In some cases the owner asked for a minimum amount of writing off, and indeed in some cases were unwilling to make extensions for munitions work unless this was done.

The experts were consulted on this suggestion, and they stated that if both parties wished this it could be done, and that it had certain advantages, viz :—

(1) It let the owner know with certainty where he stood when he embarked on his expenditure.

(2) It, so to speak, cleared matters up as we went along, and did not leave possible thousands of valuations to be made at the end of the period of control which it was seen might prove an almost impossible task.

(3) The experts were also of opinion that the Ministry would obtain more advantageous settlements by dealing with the matter in this way than by leaving the settlement to an indefinite period at the end of control, as the controlled owners would always be willing to give something for the sake of knowing exactly where they stood ; and

(4) It was recognised that it would be probably quite as difficult to get better fixed data in the state of affairs which would exist at the end of control (which was looked upon as at the end of the War) than at the time the extension was to be made.

A Minute suggesting this was prepared and approved by Dr. Addison on the 31st July, 1916.

Acting on this authority a circular (L.P. 18) was sent to controlled owners informing them that if they so desired they could have their writing off figures fixed at once.

Owing to many owners taking advantage of this offer, and the number of cases which had to be dealt with increasing very largely, Mr. Chatfeild Clarke, Mr. Mott and Mr. Jonas decided to form themselves and certain of their professional brethren, who were prepared to help the Ministry in the same way, into an Advisory Committee, which was eventually constituted as follows :—

Mr. H. Chatfeild Clarke, a Past President of the Surveyors' Institution.
Mr. Basil Mott, a Member of the Council of the Institute of Civil Engineers.

Captain H. Riall Sankey, C.B., R.E., a Member of the Council of the Institute of Civil Engineers and of the Council of the Institute of Mechanical Engineers.
Mr. Leslie Vigers, a Past President of the Surveyors' Institution.
Mr. H. M. Jonas, the Receiver of Crown Lands.
Lt.-Col. C. L. Morgan, a Member of the Council of the Institute of Civil Engineers.
Mr. J. G. Head, the President of the Estate Agents' Association.

The Committee elected me as their Chairman, and Mr. Stair C. Agnew, Barrister-at-Law, of the Controlled Establishments Division, Vice-Chairman.

A survey staff was set up, which consisted of sixteen Engineers and Surveyors, selected by the Advisory Committee from candidates who answered a public advertisement, and otherwise, and included gentlemen of considerable professional standing.

The expenditure which had to be dealt with was of two kinds :—

(1) Past expenditure, which had been incurred by the owner in accordance with Rule 9.
(2) Proposed expenditure, when the owner desired or was being pressed to make extensions for the purpose of increasing output of munitions.

It was part of Mr. Agnew's and my duties to satisfy ourselves before any case went to the Committee that the expenditure had been or was to be incurred for munitions work. In some cases this was obvious, but in general we obtained this information by consulting with the Supply Department that had pressed for the extension to be made. When the Committee had made their recommendation, a formal letter was sent to the owner embodying the Minister's offer, and containing safeguards to the effect that the owner must proceed expeditiously and economically, that if he got any allowance from the Commissioners of Inland Revenue in settling his Excess Profits Duty under the Finance Acts in regard to the same subject matter, this allowance would be brought into account and deducted by the Minister ; that capital grants received from any Government Department in relation to the expenditure would be equally brought into account and deducted. When the expenditure had been actually made the matter was, of course, gone into by the Accountants in checking the owner's accounts, but the Division also made the practice of having the actual expenditure checked on the site by an engineer and surveyor on the staff and the expenditure vouched, and if any extravagant expenditure was reported on this checking the amount of the extravagant expenditure was disallowed in toto.

The allowances made by the Ministry of Munitions under Rule 9 were, in accordance with the pledge given by the Chancellor of the Exchequer when the Bill for the Finance Act, 1916, was before Parliament, accepted by the Inland Revenue Authorities as the allowances to be given by them under Section 40 (3) of the Finance (No. 2) Act, 1915. Further by the provisions of Section 39 of the Finance Act, 1916, and Section 16 of the Finance Act, 1917, these allowances were also made applicable to Income Tax.

Under the provisions of the last mentioned Act the administration of Munitions Levy has been transferred to the Board of Inland Revenue. Munitions Levy has ceased to be operative as from the 31st December, 1916, and the settlement of allowances for the purposes of Section 40 (3) of the Finance (No. 2) Act, 1915, is of course entirely a matter for that Board, who in settling these allowances follow generally the principles adopted by the Minister, namely, that the basis of the allowance should be the difference between the actual cost and the post war value.

In dealing with allowances to be made under Rule 9 (a), (b) and (c), C.E. Division of the Ministry were concerned only with assessments to Munitions Levy, and had to consider the matter solely from the point of view of taxation, that is to say, for the purpose of those assessments. They were not concerned with questions of contract or of advances to controlled owners, which were matters dealt with by the Finance Department and the Contracts Department of the Ministry. These Departments, however, in making agreements with controlled owners for supplies or financial aid from time to time, inserted in such contracts, possibly under pressure from the owner, provisions dealing with post control value and writing off allowances to be made under Rule 9, which were not fixed by this Division. Instances (a) and (b) mentioned in paragraph 23 of the Report, appear to be of this nature. The names of the firms and the dates of the contracts are not given in the Report, but sufficient particulars have been given to identify them.

As regards paragraph 23 (c) of the Report, it is true that in endeavouring now to fix the post war value there are elements of uncertainty, but it seems evident that elements of uncertainty would equally come in at the end of the period of control, and it has been considered that the disadvantages which arise from this uncertainty are altogether outweighed by the advantages which I have already mentioned in dealing with the circumstances which led to the issue of Circular L.P. 18.

I also think that it would be an exaggeration to say that the allowances fixed, after careful consideration, by a body of such great professional experience as the Advisory Committee, would bear little relation to the true post control value. Surveyors and Engineers of experience frequently have occasion, in the course of their professional work, to estimate, and indeed arbitrators have almost every day to decide what would be the value of property at a future date under altogether changed conditions.

I do not think that there is any danger of firms receiving the benefit of a writing off of excess profits both from the Ministry and the Inland Revenue. So far as concerns the allowances settled by C.E. Division, the assessment of Munitions Levy is made by the Inland Revenue, who have in their hands for that purpose all the records and files formerly kept by the Division, and no question of this kind can arise. So far as regards allowances of a similar nature, which may have formed part of contracts settled by other Departments, arrangements have been made by which particulars of these contracts are furnished to the Board of Inland Revenue.

The contributions which are mentioned in the latter part of paragraph 23 are negotiated and settled by the Finance Department, and under present conditions the C.E. Division are not now concerned with them. I understand, however, that the practice has recently been changed, and that guarantees are no longer given.

Paragraph 24 of the Report contains a reference to housing, as to which the facts are as follows :—

In the early days of the Ministry, allowances under Rule 9 in respect of housing schemes were given in a few cases. The disadvantages of this procedure were early recognised and, partly at the suggestion of C.E. Division, an arrangement was made in the latter part of 1916 that housing schemes should be dealt with by means of Treasury grants, and since that date allowances under Rule 9 (a), (b) and (c) have, so far as C.E. Division is concerned, ceased to be given in respect of such schemes.

It is suggested in the Report that the Ministry has admitted the unsoundness of the principle involved in writing down out of excess profits the cost of housing schemes, and that the criticism appears to be equally valid in regard to factory extensions. With regard to the latter part of this observation, it must be remembered that the right to have writing off allowances in respect of extensions made for the purpose of munitions work was a statutory right conferred on the controlled owner by the Munitions of War Act, and that where a controlled owner could show that he had made factory extensions for the purposes of munitions work, it was not in the power of the Minister to refuse to give him an allowance under these Rules in respect thereof. On the other hand there was considerable doubt whether the erection of permanent houses (as distinct from temporary hostels) properly came within the provisions of Rule 9, and the existence of this doubt was one of the reasons which led to the change of policy to which reference has been made.

(Signed) *Seager Berry*,
Controlled Establishment Division,
Hotel Victoria.

2nd May, 1918.

APPENDIX No. 15.

PAPER handed in by Mr. *S. Dannreuther*, C.B., 4th June, 1918.

MEMORANDUM ON THE RE-INSPECTION OF AMERICAN SUPPLIES.

Shortly after the outbreak of War in 1914, steps were taken to place contracts for warlike stores in many neutral countries in order to supplement those manufactured in England, where manufacturers were quite unprepared to meet the huge and immediate demands for munitions of War of all natures. Large contracts were placed in America, where trade conditions were booming for ordinary commercial products, the manufacture of which had practically been closed down in Europe on account of the War.

The Army Inspection Department, which was only organised to deal on a peace time basis with the equipment of our standing army of 300,000, and an Expeditionary Force of some 150,000 men, was over strained to the utmost in expanding to meet the colossal demands which this country's entry into the war entailed. A small nucleus staff—as many as could possibly be spared—was sent from Woolwich to America, where manufacture of shell and other munitions was quickly commenced on a vast scale. Trade conditions in America were such that specifications and terms of contract had to be considerably relaxed in order to induce contractors to accept contracts. It was at once recognised that an adequate organisation to inspect on the same stringent lines as had been found essential in this country could not possibly be instituted owing to the absence of experienced staff.

Stores were most urgently required for our Armies in the field, and while the limited staff in America did everything that was humanly possible to cope with the situation, it was physically impossible, owing to their limited numbers, for them to conduct a thoroughly efficient inspection that could be accepted as final from the point of view of the Army.

In the majority of cases these purchases were inspected in America prior to despatch, and payments were made to the contracting firms on the results of that inspection, which procedure was in accordance with the terms of their contracts, the contractors not being prepared to accept contracts for stores to be inspected after arrival in this country, and demanding final payment on delivery at wharf. It is thought that, even if they had agreed to the former proposition they would only have done so at a considerable advance in price, amounting to possibly five or ten times the net loss experienced. It was therefore considered that owing to the urgency of supply during the period in question and the absence of facilities for a completely satisfactory inspection in America, it was desirable to reinspect the goods in England before final delivery to the Army.

It should be pointed out that, in order to establish in the first instance a thoroughly efficient and adequate inspection organisation in America, it would have been necessary to build bond-rooms, storage accommodation, etc., and the cost would probably have been as great as, if not greater than, the sum mentioned below as the net cost on shell, forgings, fuzes, minor components, and small arm ammunition. The institution of this procedure would also have involved a great delay in output at a time when our requirements for Gun Ammunition were, as already pointed out, of the most vital importance.

The result of the re-inspection disclosed a large number of defects which necessitated either rectification or rejection to scrap. The cost of rectification plus the loss on rejection to scrap for the period up to 31st December, 1917, amounted to £557,000. It is not possible at present to give complete figures of arrivals in England and the class of goods concerned up to the same date, but a calculation of the arrivals up to the 31st May of the same year shows that their value was about £137,000,000. Even on the basis of this figure the net amount lost, including cost of rectification, viz: £557,000, is equal to 0·4% of the value of the goods received and re-inspected.

It must be borne in mind that the rejections include stores damaged in transit, and also that many of the rectifications have been rendered necessary for similar reasons.

In the case of Small Arms Ammunition, a large proportion of the rounds sentenced as imperfect were suitable for use as practice ammunition.

The loss of money resulting from payments for unserviceable stores was brought under observation in 1916, and the responsibility for inspection in U.S.A. and Canada was placed with the Headquarters Department of the Ministry, and, as a result, a mission headed by Mr. A. H. Collinson, C.B.E., the present Controller of Inspection of Munitions, was sent to America to report on the best steps for developing and improving the overseas inspection. The adoption of the recommendations of the mission, which resulted in the re-organisation and expansion of the American Inspection Department, together with the effect of the entry of the United States into the War, has tended to control manufacture and to minimise the rejections on re-inspection after the arrival of the stores in this country.

With regard to the question of recovery from contractors for stores found unserviceable on arrival in this country, it will be appreciated that, having regard to the fact that the contracts with the supplying firms imposed upon the Ministry the requirement to make payment upon the ammunition passing inspection in America, it is improbable that the firms concerned would consent to pay any compensation to Government for losses entailed, owing to the articles failing to pass a subsequent inspection in England. At any rate no such result could be hoped for without exercising pressure, which is considered very undesirable on grounds of general policy, and which would in all probability be effective in only a few cases. The Ministry's Agents in U.S.A., with whom the Department has been in communication on the subject, confirm this view. On the other hand, no really useful purpose can now be served by entering on an enquiry as to whether in all cases, or in certain cases, the failure which has occurred was due to faulty inspection in America, to too strict a test being applied in England, or to deterioration in transit.

In the case of shell, it is probable that the figures include certain large calibre shell which were paid for in advance of proof upon the contractors undertaking to pay the Government for the cost of rectification or rejection. In the case of this latter class, further enquiries are being made with a view to making claims upon the contractors concerned, if such can be substantiated, and any recovery effected would, *pro tanto*, reduce the estimated loss as shown above.

As far as the enquiry has proceeded, it is not considered probable that there was any large number of rejections of such deliveries. With this exception, the Ministry recommended to the Treasury a write-off of the loss involved in the transactions, and the approval of their Lordships to this proposal has been received.

S. Dannreuther.

June, 1918.

APPENDIX No. 16.

PAPERS forwarded by Mr. *J. A. Flynn*, C.B., 18th June, 1918.

"GENEROSITY" IN THE ADMINISTRATION OF PENSIONS.

In paragraph 8 of his Report upon the Account for 1916-17, and in his evidence before the Public Accounts Committee, the Comptroller and Auditor-General has animadverted upon a tendency in the Ministry of Pensions toward excessive generosity in the administration and interpretation of the Warrants regulating pension matters, and to exceed the authority of these Warrants without Treasury sanction. I felt compelled to state that I consider the tendency so marked as to cause me grave concern, as Accounting Officer for the Ministry, and that in view of the lack of clear evidence, and of the "generous" instructions under which certificates have been given, I feel that a very large number of grants will not be sufficiently supported to enable me to certify the accounts without qualification or Treasury authority.

The Committee have directed me to furnish a statement upon the matter, supported by some illustrative examples.

The following preliminary remarks show generally how the difficulties arise.

The Regulations ordinarily make grants dependent upon certain facts to be established by evidence or certified by prescribed authority. It should not be necessary for the Accounting Officer to go behind such certificates.

The main fact upon which the admissibility of a "war pension" depends is that the disablement for which it is granted shall be attributable to or aggravated by military service.

In cases of wounds attributability is usually sufficiently established, but in cases of disease the fact that the disability has arisen or become worse *during* service is not in itself a ground for pension. There must be evidence or a reasonable presumption that the conditions of military service or some circumstances connected therewith have been responsible. This is a point to be decided generally by medical opinion.

There is frequently great difficulty in determining whether and to what extent disease has been caused by the conditions of Army Service. The difficulty is far greater when it has to be determined whether diseases or defects existing or latent before enlistment have been "aggravated" by service (which qualifies for a pension for the *whole* disablement).

In the early days when men were accepted only if fit for the full duties of a soldier, and were released on medical grounds only when they became physically unfit for these duties, there was a natural presumption, in the absence of evidence to the contrary, that their disability had arisen *in*, if not *by*, the service; or, if not, that the doctor passing them on behalf of the State had wrongly subjected them to arduous conditions, for which they were unfit. Later, men of low physical categories were accepted; and it was ruled that all discharges should be made as "no longer physically fit for War Service," i.e., on medical grounds, even though the man was in fact in exactly the same physical condition as on entering and was really discharged because there was a surplus of men of his medical category or of his qualifications; or because he personally was found to be of little use. The arrangement was designed to secure that every man should be medically boarded, and have any claim to pension reviewed; but it had the bad effect of labelling every man as having a *prima facie* claim to have become disabled in the service. This should be remembered when it is suggested that the judgment of attributability is so strict that half the cases are found to be non-attributable. In many of these cases there was no new disability to attribute; the man was only discharged nominally on medical grounds; that a doctor passed him "in," no longer meant that he was fully fit; that a doctor sent him "out" did not mean that he was necessarily more unfit than on entry. Whether he had in fact been impaired by service, or during service, had to be considered and pronounced upon by the medical board.

Attributability is not entirely a medical question. The medical opinions were reviewed by the Awarders of the Ministry, as they had been reviewed in the past by the Board of Chelsea Commissioners. The qualifications of the judges, and the conditions under which they worked had, however, greatly changed. The Chelsea Board was composed of a number of eminent ex-officers and officials who were specially qualified to adjudicate upon such cases and had plenty of time to do so. They were assisted by trained

officials who had a great knowledge of pension matters, and were of sufficient numbers to cope adequately with the work and to enquire fully into the doubtful cases. The Ministry Awarders were not in this fortunate position. Owing to the great pressure of work it was necessary to appoint a large number of fresh Awards Officers. These gentlemen totally lacked experience, and worked under great stress; and for a long while there was insufficient medical staff to advise them. In the early days of the Ministry it was held, and I believe with justification, that the opinions of Medical Boards tended to be harsh towards the man's claim. It was considered necessary to guard against this in the rules and instructions which were issued for the guidance of the Chelsea staff. The rules took partly the shape of "formulas," directing that in certain cases, attributability or aggravation should be presumed. Admittedly the formulas were on the *generous* side and had primarily in view the securing that admissible cases were passed, rather than that inadmissible cases were rejected. The instructions and practice also usually favoured the claimant. As an instance I mention that it was laid down that certain Awards Officers could increase an award on their own responsibility, but must not reduce it without medical concurrence. I have received the clearest impression from "cases" and from personal discussion, that Awarders throughout the Ministry (not merely at Chelsea), understood that they were to give whenever they could, and that they were on the search for assessments to be raised *rather* than for assessments to be reduced. The same impression was received by Major-General Sir C. Crutchley, K.C.B., K.C.V.O., the Lieutenant-Governor and Secretary of Chelsea Hospital, who had long and intimate acquaintance with the past system of awarding, and who saw a good deal of the new system as a member of the Advisory Board which was formed to deal with difficult cases. He placed his opinion to the above effect definitely before the Ministry in a Memorandum of 18/10/17, from which I quote the following portion: "The procedure adopted by the Pensions Department and the Tribunal is liable to err on the side of excessive liberality. The tendency seems to be to accept the finding of Medical Boards where they are in favour of the man invalided; to refer to its Medical Branch when the opinion is adverse to the man, and to over-ride that Branch if its opinion remains adverse and is in accordance with the Medical Board." I have made similar representations upon very many occasions. As regards the Chelsea cases (i.e., awards to soldiers), I have understood the tendency to generosity to be admitted, and defended on the ground that the only way to get through the mass of work and give the men their pensions was to act by general rules; and that obviously such rules must be on the generous side.

The principal formulas which were issued were four in number (given in full in Appendix I.).

(1) A formula for Tuberculosis cases, 18th June, 1917.
(2) A formula for Insanity cases, 21st August, 1917.
(3) A minute qualifying the application of formulas (1) and (2), 2nd October, 1917.
(4) A general Instruction (the main formula) 4th October, 1917. Amended December, 1917.

Formula (1) was issued to all Medical Boards, as well as to the Awarders and Medical Staff at headquarters. The other formulas were issued only at headquarters, but as all cases of insanity were considered there, and all the doubtful cases reviewed, they were really of general application. Formula (3) should, of course, have been issued generally.

The chief provision of formula (4) ran as follows:—

"Where a man is discharged in consequence of medical unfitness for further service, it shall be presumed that the cause of his unfitness was due to service unless

(*a*) there is conclusive* evidence to the contrary, or
(*b*) that such unfitness was due to his own serious negligence or mis-conduct."

These formulas were bound to lead to the admission of cases which could not be brought within the strict reading of the Warrant. That the main formula did so is acknowledged in the correspondence with the Treasury, which I annex as Appendix II. This correspondence shows the present position of the matter. In brief it is admitted that the formulas went beyond the Warrants, and led to the admission of a considerable number of incorrect cases; and that they shall be amended for the future; but the treatment of the incorrect admissions in the past is not finally determined.

The formulas placed me in a position of great difficulty as Accounting Officer. As soon as the formulas for cases of tuberculosis and insanity came to my notice (which was not until some time after their issue) I urged that they virtually superseded the Regulations, and that what was required was not formulas directing the assumption of facts, but better ascertainment of the facts and determination of the decisions by them. I argued the matter at some length and explained the position and powers of a Government Department and its Accounting Officer in a Memorandum, "Facts and Formulas." I had not finally revised this Memorandum when the Parliamentary Secretary to whom I showed it as a draft accepted it to the extent of issuing the Instruction No. 3 on the 2nd October, 1917. As this met my then objections I did not proceed further with the Memorandum. I give a note bearing upon the attitude of an Accounting Officer towards "generosity" (Appendix III.) with which my memorandum did not specifically deal.

Meanwhile I had issued to my examiners an Instruction (Appendix IV.) to examine all cases by the actual wording of the warrant, and to submit to me any which did not appear to be covered by this, even if the finding were in accordance with a formula.

On the 4th October the Minister issued formula (4) which also did not come to my notice until some little time after issue.

As stated in the correspondence with the Treasury (Appendix II.) I represented that this formula led to passing cases not covered by the Warrant; and the Minister decided to lay the whole matter before the Treasury proposing to amend the formula. I leave the subsequent correspondence to speak for itself.

No doubt this correspondence will lead to a definite decision as to the conditions under which attributability or aggravation shall be admitted, and how far the awards in existence (as conditional grants liable to review†) are to be continued under more lenient rules than would now be held to justify them. So far as the facts are clear, my position will then be the ordinary position of an Accounting Officer who has to satisfy himself that, under regulations, he has the necessary evidence or certificates of fact to pass the award. But in a very large number of cases the facts are not clear, and cannot be clear without a good deal of further enquiry and a medical examination *de novo* into the question of attributability, as cases

* In December 1917, the word "conclusive" was altered to "good," but some delay took place in notifying the change.

† Most of the *permanent* pensions granted are for specific injuries (wounds, etc.) in which attributability is usually clear. In other cases a final assessment is rarely made until after a long period, so that the doubtful cases are mainly in the *conditional* stage and subject to review. The controversy does not really affect "war pensions" proper—i.e., those for or on account of men who have suffered upon "fighting service."

come up for re-assessment. There is very little in the man's documents as a rule to show how the disease originated; the extent to which the benefit of the doubt has been given is usually covered up in the medical verdict; and this verdict has often been given under the influence of formulas or instructions which enjoined giving the benefit of the doubt to an extent greater than it is now attempted to justify or under the general principle of generosity; and it is contended that medical opinions must to a considerable extent be reckoned numerically, even though one may be an opinion given under the influence of old formulas, etc., and the other the opinion of our present specially selected medical advisers.

The cases and decisions which I quote in Appendix V. are intended mainly to justify my opinion that I cannot rely with any confidence upon the finding of "attributable" or "aggravated" upon the strength of which existing pensions stand upon the list. The examples take the form of cases queried upon audit, or cases which appear to me to illustrate the general tendency to generosity. The documents are usually too voluminous to quote in their entirety, and although I have tried to give all the salient features, the quotations are determined by the point which I desire to show. I have, of course, tried to give the arguments against my point fairly. I give references which will enable the Committee to call for any of the actual documents, which, of course, are at their disposal.

I draw particular attention to the following points:—

(*a*) Shows certain cases, of which some were admittedly wrong awards, and had to be cancelled, which were certified "in accordance with formula," *contrary to the Medical Officer's professional opinion.*

(*b*) Shows four cases which the then Senior Medical Officer at Chelsea passed under the formula because there was not *conclusive* evidence against them. On subsequent reference he stated that there was *good* evidence against them, and that his decision gave the men more than the reasonable benefit of the doubt.

It will be observed that only a portion of the cases referred to in (*a*) and (*b*) were rejected after fuller investigation. I have chosen leading instances which illustrate the reason for thinking that some old decisions were harsh, as well as for thinking that the Ministry decisions were "easy."

The ill-results of the formulas are, I think, worse than the particular examples would suggest. For in my judgment the cases quoted are not typical *in that the documents had some incidental remark or fact which enabled me to question the findings.* There must be many more cases in which the effect of the formula is buried in the finding, e.g., a decision "aggravated by service" may mean that the medical officer thought that there was a bare possibility that this was the case, and felt that he was bound by his instructions to return it as "aggravated," and there may be nothing on record justifying me in questioning it.

This is my difficulty in certifying the accounts—that the actual evidence of the attributability or aggravation by military service is slight or absent; and that the medical opinion certifying it was given under instructions which must often have led to presuming attributability for reasons not fully justifiable, or now attempted to be justified.

(*c*) is a schedule of somewhat similar cases disallowed upon my objection upon audit. These are only a selection from a considerably larger number.

(*d*) is a case under consideration which illustrates the cumulative effect of giving the benefit of the doubt at various points of a case. Not only may this be given on various doubtful points of the same case, but it may be given several times by different people.

(*e*) shows the influence of formulas and instructions upon the Appeals Boards, which were set up at Chelsea to deal with appeals after discharge. It seems to me that, in such cases, the fact that the presumption is against the man who appeals after a long interval is not always sufficiently regarded in practice.

(*f*) illustrates the tendency to take a very generous view of State responsibility in the case of officers suffering from drink or drugs. I have passed four somewhat similar cases under the Ministers personal orders.

(*g*) I give this case as a perfectly typical specimen, which shows clearly the point upon which I have to object practically daily.

There is no difference of opinion as to the facts. I take the statement which is given as the justification for the pension.

"This belongs to the very rare class of case where it is possible for an error of refraction to be aggravated by military service (a case of high myopia). Aggravation is therefore possible but not probable. In this case as it had already been allowed, the benefit of the doubt was given the man, although the doubt was considerable."

It will be clear that as Accounting Officer I cannot accept this as establishing a claim to pension under the Warrant.

(*h*) is a similar case to (*g*) in which the matter is more fully argued.

(*i*) refers to three cases, admitted by the Appeals Tribunal (in two instances without examining the claimant), in spite of unfavourable reports from a strong Local Committee which had fully investigated the claims. The unanimous opinion, so far, in the Ministry is that two of the cases are inadmissible, and that the third is insufficiently established; but the matter has yet to go before the Minister. I instance these cases, not only to show that the principle of generosity has been applied by the Appeals Tribunal, but because it has often been suggested to me that the decisions of the Tribunal rather force the pace of the Ministry; and also because the cases illustrate the difficulty, as a matter of policy, of reversing erroneous awards. I have pointed out that, if it is decided to continue grants considered to be erroneous on such grounds, Treasury sanction should be obtained.

Naturally I quote cases which have come to the notice of higher authority; but I think the view of "generosity" permeates the whole awarding staff, and is probably applied by the lower ranks with less discretion than in the considered decisions, *and probably sometimes in ways that escape my notice and that of my staff* (for which I have been unable to obtain a sufficient number of trained officials).

So far as my remarks or specimen cases deal with errors or apparent failures at Chelsea, may I be allowed to say that in the course of my audit I have been compelled to realise that the Staff there have worked with zealous effort under enormous difficulties and under extreme stress; and that it may well have been practically impossible for them to avoid some of the objections which an Accounting Officer cannot avoid raising. I see no reason to anticipate having to question certificates of the medical staff there in future new cases, otherwise than in the "retail" way of occasional query, which is part of any audit.

It is the general position to which I desire to draw attention rather than individual cases passed contrary to my advice, when the facts were in the open. In that class of case my duty is clearly prescribed, fully admitted by my Minister, and I hope fully carried out by me. Such cases come before the Comptroller and Auditor-General, who can bring them to the notice of the Treasury or the Public Accounts Committee. I hope the Committee will agree that when I have discharged my duty of protest the matter is out of my hands, and that I should not take the position of advocate for my personal views—or for the views of an Accounting Officer—against the views or policy of the chief of my department. It is right however to say that there are in existence a good many cases of the kind which have not yet reached the Comptroller and Auditor-General.

For similar reasons I do not place before the Committee the actual minutes in which I made general representations to the Minister upon two tendencies in the Ministry which caused me anxiety and even distress, the tendency—which I considered marked—towards an interpretation of warrants, &c., strained in the direction of generosity, and a tendency—distinct, but perhaps only a transitory phase at the beginning of a new office—to omit reference to the Treasury upon points which that department should determine. My minutes and verbal protests (both somewhat numerous) usually arose upon the occasion of proposals to which I saw strong objection; and, though the general objection was of an "Accounting Officer" nature, the minutes were often written partly in the capacity of financial adviser, and contain some matter meant only for domestic consumption. I may note that in two very important cases the Minister accepted my advice on the particular proposals, and that my allegations as to the existence of the tendencies were not challenged on any occasion. Upon the occasion of laying the 1918–19 Estimates before the Minister, I pointed out that there was an excess in current expenditure over the Actuary's estimate, for which I could find no explanation but generosity of administration. The Government Actuary appears to have arrived at the same conclusion. (See para. 5 of Sir Alfred Watson's report of 18/4/18, Cd. 9054.) On the analogy of 1917–18, both the Actuary and I arrived at a figure of about £2,500,000 for the current year; but *new* awards are now being made more strictly than last year, and this should lead to a reduction of the figure.

Every possible facility has been given to me in performing my duties as Accounting Officer. There has been no attempt to limit the scope of my queries, and they have been dealt with in the friendliest spirit. Many of them have led to a satisfactory solution—the production of further evidence or reasons justifying the decision, or an amendment of it. But I cannot accept a suggestion, which has sometimes been made to me, that authority to pay under protest, freeing me from personal responsibility, should also be a solution satisfactory to me. *The Accounting Officer's protest is meant to be a security for Treasury control, not a substitute for it.* When such protests are anything but very rare, either the Accounting Officer is unduly litigious, or the department is unduly straining its regulations, if the principles of interpretation laid down by the Public Accounts Committee are to be observed. That these principles bind me, as Accounting Officer, has never for a moment been questioned or been made the occasion of the remotest resentment, nor has it been suggested that I raised any queries needlessly. In the unusual position in which my duty places me, the Committee will, I trust, allow me to place on record my regret in having to question the action of my own department, and my warm appreciation of the friendly manner in which my chiefs have regarded my performance of the duty. They have spared me from it becoming an unpleasant one, and the Minister has left me entirely unfettered in my choice of cases and minutes to lay before the Public Accounts Committee, and desired not to see my selections and representations until presented.

J. A. Flynn,
17th June, 1918. Director of Finance, Ministry of Pensions.

ENCLOSURE I.

THE FORMULAS.

FORMULA FOR TUBERCULOUS CASES.

3896.

The two principles adopted at the recent Tuberculosis Conference and accepted by the Ministry are the following.

(1) Where the disease has developed during service overseas the man should always be held to be pensionable.

(2) In any case (where the man was passed for military service) it should be presumed that the disease has been contracted or aggravated by such service unless the invaliding board or the medical advisers of the Ministry are satisfied that phthisis was present previous to enlistment and that the disease was not aggravated by service.

FORMULA TO ASSIST IN DECIDING THE ELIGIBILITY FOR PENSION OF A MAN WHO HAS BEEN DISCHARGED FROM EITHER OF THE SERVICES ON ACCOUNT OF INSANITY OR WHO HAS BECOME INSANE SUBSEQUENT TO DISCHARGE.

4236.

RULE 1.—A man discharged on the grounds of certifiable insanity should be regarded as pensionable unless definite evidence is forthcoming that he was the subject of insanity (which includes idiocy and advanced imbecility) at the time of enlistment or unless he is excluded by any of the conditions contained in the "Directions" attached hereto.

RULE 2.—A man discharged on the grounds of certifiable insanity should, *prima facie*, be regarded as pensionable although, prior to enlistment, he may have had one attack of certified insanity. When, however, a man has had more than one attack of certified insanity prior to enlistment, there must (to render him pensionable) be evidence that the recrudescence of the disability has been caused or aggravated by war service.

RULE 3.—For the purpose of Article 9 of the Royal Warrant, a man should not be regarded as pensionable if, during the period which has elapsed since he was discharged, he has been able to follow an ordinary civilian life, and no connection can reasonably be traced between the attack of insanity and the man's previous naval or military service.

DIRECTIONS FOR APPLYING THE FOREGOING "FORMULA."

A differential diagnosis between the numerous forms of mental disorder, officially recognised for statistical purposes, is by no means an easy matter even in the hands of experts, and in deciding whether a man's insanity has been caused or aggravated by service, such a diagnosis, except in the cases mentioned below, need not concern those responsible for the decision.

(1) "Congenital mental deficiency" appearing on a medical report is an insufficient term to enable the case to be adequately considered, as it may include feeble-minded cases of high grade.

High grade feeble-mindedness (*i.e.*, feeble-mindedness of only moderate degree), though recognised medically as a predisposing cause of insanity, should be ignored in assessing a case for pension purposes.

(2) Insanity associated with epilepsy:—

When a man suffers from an attack of insanity subsequent to enlistment, the mere fact that the insanity is of a character which is probably produced by epilepsy, the epilepsy having existed before enlistment, does not disentitle him to a pension.

(3) In cases of insanity associated with syphilis, including general paralysis of the insane, non-pensionability should be confined to those men who had shown definite evidence of cerebral disease before enlistment.

(4) Insanity associated with alcoholism:—

(*a*) The following factors should not be regarded as unfavourable to a man's claim for a pension:—

Alcoholism following great mental or physical exhaustion, head injury, concussion, sunstroke, debilitating illness or fever, the results of war service.

(*b*) The following factors should be taken as unfavourable to a man's claim for a pension.

Definite evidence that, prior to enlistment, he had had an attack of delirium tremens or been otherwise mentally affected as the result of alcoholic excess, or that he had been drinking heavily for a considerable period prior to enlistment or during his service.

Pension Ministry,
August, 1917.

FORMULA III.

INSTRUCTION UPON FORMULAS I. AND II.

5995.

It should be understood that these formulas are not intended as absolute rules to be applied contrary to known facts or evidence, but as rules for guidance and assistance in determining cases in which sufficient evidence is not forthcoming. The underlying principle is that the benefit of any reasonable doubt shall be given to the man, where the evidence obtainable is inconclusive or conflicting.

A. G B.
2/10/17.

FORMULA IV.

INSTRUCTIONS ISSUED BY THE MINISTER OF PENSIONS.

TO THE MEDICAL STAFF AT CHELSEA AND IN GENERAL.

6155.

1. Where a man is discharged in consequence of medical unfitness for further service it shall be presumed that the cause of his unfitness was due to service, unless (*a*) there is conclusive evidence to the contrary, or (*b*) that such unfitness was due to his own serious negligence or misconduct.

2. Where a medical referee, or other medical practitioner appointed by a Local Committee or otherwise reports that a man's unfitness was due to or aggravated by service, and the medical staff of the Ministry disagree with such report, the case shall be referred to the Advisory Board for decision.

3. In addition to evidence furnished by a medical referee or medical practitioner appointed by a Local Committee full consideration should be given to any statement submitted by a man's former or present employer showing a man's general conduct and efficiency as a workman prior to service and any observable change alleged to be due to such service.

(Initd.) *J. H.*
4th October, 1917

AMENDMENT OF FORMULA IV.

MEMORANDUM FOR AWARD OFFICERS, AWARDING CLERKS AND HEADS OF SECTIONS.

MODIFICATION OF MINISTER OF PENSIONS INSTRUCTIONS "TO THE MEDICAL STAFF AT CHELSEA AND IN GENERAL."

On the 4th of October last the Minister issued instructions to the medical staff at Chelsea and in general that "where a man is discharged in consequence of medical unfitness for further service it shall be presumed that the cause of his unfitness was due to service, unless (*a*) there is conclusive evidence to the contrary, or (*b*) that such unfitness was due to his own serious negligence or misconduct."

The Minister has decided that the word "good" shall be substituted for "conclusive" in this instruction.

(Initd.) *W. H. C. P.*
27/2/1918.

ENCLOSURE II.

CORRESPONDENCE WITH TREASURY AS TO ATTRIBUTABILITY.

6155.

27th December, 1917.

Sir,

I am directed by the Minister of Pensions to request you to lay before the Lords Commissioners of His Majesty's Treasury, the following important matters with reference to the interpretation of Article 1 of the Royal Warrant of 29th March, 1917.

In view of the wide rendering that has been given to the expression "attributable to or aggravated by military service" by the Pensions Appeal Tribunal and also of the opinions that the Minister has received from medical experts as to the difficulty of deciding with complete justice to the man that certain disabilities from which a soldier may be found to be suffering on discharge (*e.g.*, tuberculosis and insanity), are not attributable to or aggravated by his military service, the Minister has had in contemplation to propose a change in the Article in question which would make eligible for pension every man who was discharged during the war on account of medical unfitness for further service not due to his own serious negligence or misconduct. This would have involved doing away with Article 7 (2) by which gratuities are given on discharge on account of unfitness neither attributable to nor aggravated by military service. The number of gratuities now given under this Article is, however, very considerable—some 2,000 a week; the operations of the Pensions Appeal Tribunal and the precedents they set up give increasing security that they are properly given; and such a substantial alteration of the Article as that indicated would in all probability produce a fresh set of difficulties at the time when those resulting from its present form are being overcome. In these circumstances, the Minister proposes to make no change, but to get their Lordships' specific authority for his interpretation of medical unfitness "attributable to or aggravated by military service" as covering medical unfitness which has arisen or become worse during military service, unless there is good evidence that the disability is not due to service or been aggravated by it.

The Minister will be greatly obliged if the authority referred to above could be communicated to him at a very early date.

I am, &c.,
(Signed) *M. N.*, Secretary.

The Secretary, Treasury, Whitehall, S.W.1.

44127/17.

Sir, Treasury Chambers, 18th January, 1918.

I have laid before the Lords Commissioners of His Majesty's Treasury your letter of the 27th ultimo (6155), stating that the Minister of Pensions desires their Lordships to authorise the interpretation of "medical unfitness attributable to, or aggravated by, Military Service" as covering medical unfitness which has arisen or become worse during military service, unless there is good evidence that the disability is not due to service or been aggravated by it.

My Lords feel strongly that an interpretation in this sense would involve so extensive a change in the principles of the Warrant as to amount to a fundamental alteration. They presume that the inevitable result of placing the onus upon the State of showing that on a man's discharge from military service for medical unfitness such unfitness is not due to, or aggravated by, service, would be the grant of pension in large numbers of cases in which a gratuity is now the appropriate method of dealing with the case.

My Lords need not remind Mr. Hodge that the heavy cost upon taxpayers in the following years of the pension system, even if most carefully administered, is likely to prove serious and is bound to re-act upon every taxpayer, including the poorest classes. Even as the Warrant stands at present, the pensions awarded in cases of aggravation appear to them to be unduly high, for if a man enters the Service in a low medical category with some physical disability, which is aggravated in even the slightest degree, my Lords understand that it is the practice of the Pensions Ministry to award pension upon his total disability and not upon the degree of aggravation even if that be only 1 per cent. which has been sustained.

It appears to them that the practice of accepting men of low medical categories in the Army for work other than fighting renders it most important that the whole of the arrangements based on the assumption of disability arising from wounds, or sickness due to active service conditions, should be revised.

My Lords believe that the true policy and only course just alike to the men and to the taxpayer must be, while dealing liberally with the man and giving him the benefit of such doubt as may fairly arise, e.g., in cases of latent rheumatism or tuberculosis brought out by war service, to ensure a painstaking and conscientious medical inquiry and to abide by its results.

I am, &c.,
The Secretary, Ministry of Pensions. (Signed) *T. L. Heath.*

6155.

Sir, 18th April, 1918.

I am directed by the Minister of Pensions to acknowledge the receipt of your letter of 18th January, 1918, No. 44127/17, relating to the interpretation of "medical unfitness attributable to, or aggravated by, Military Service," and to state that the delay in replying thereto has been partly due to the careful and prolonged consideration which this very difficult question has required, and partly to the desire to gain experience of the practical working of awards after the changes which, as their Lordships are aware have taken place in the Medical Staff at Chelsea.

Mr. Hodge holds that the powers of interpretation entrusted to him under the Royal Warrant governing these matters give him a very wide margin of discretion in the matter at issue; and he wishes me to say definitely that he considers the ruling now proposed entirely within his powers This ruling is to the effect that "medical unfitness attributable to, or aggravated by, Military Service," shall be held to cover any medical unfitness which has arisen or become worse during Military Service, unless there is good evidence that the disability is not due to service or been aggravated by it.

Mr. Hodge does not think that these words place the onus of proof upon the State beyond—as their Lordships propose—"dealing liberally with the man, and giving him the benefit of such doubt as may fairly arise." The intention is that doubtful cases shall be carefully investigated, and all possible evidence obtained, and the man given the benefit of the doubt when there is no strong balance against him.

Obviously the estimation of the evidence for and against the man cannot be made with any approach to mathematical accuracy. If this were possible, justice would be done to the State by awarding pensions when the chances were 50 per cent. in the man's favour, and 50 per cent. against; but obviously this would exclude a good many individuals who had a just claim, and include a good many who had not—if the

truth were ascertainable. So far as the underlying idea of the proposed formula can be put into mathematical language it may be taken to be that the man should be given the benefit of the doubt if the chances in his favour amount to about 40 per cent., and it was proposed to explain the matter to medical boards and awarders in terms somewhat as follows:—

"The decision what constitutes reasonable ground shall be based on evidence of:—

(1.) The nature of the disability and the medical and other history of the case.

(2.) The conditions under which the man served.

(3.) The state of the man's health and the regularity or otherwise of his employment before enlistment, when evidence of this is available.

Unless the probabilities are distinctly against the man, the benefit of the doubt shall be given to him."

It does not appear to Mr. Hodge that this leaves any real difference between his proposed formula and that suggested by their Lordships, or that either errs upon the side of generosity, considering that there is always the presumption in favour of the man that he was admitted after medical examination as fit, and has become unfit during service.

With this explanation Mr. Hodge trusts that their Lordships will feel no difficulty in concurring in his proposed formula as to the benefit of the doubt.

As regards the form of the formula which was previously in use, the position is different. In this the word "conclusive" was used instead of "good." Although Mr Hodge's intention was the same as that which is now stated, he frankly admits that the choice of the word was untortunate, and that in practice it led to some awards which would have amounted to an alteration, rather than an interpretation of the Warrant. Certain concrete cases of this nature were brought to his notice by the Accounting Officer of the Ministry, and in consequence he gave directions for the future amendment of the particular awards, and altered the formula by the substitution of the word "good" for "conclusive."

It is not possible to reconsider at the moment all the awards made while the instruction existed in its original form. The heavy strain upon the awarding staff would anyhow render it impossible for this work to be undertaken; and the extent to which the benefit of the doubt was given is frequently covered up in the medical verdict which says simply "attributable" or "aggravated." It has now been arranged that this point shall always be brought out distinctly in the finding, and cases will be considered by the standard of the revised formula upon re-survey and re-assessment. (Very few pensions have yet been made permanent, except those for specific injuries, in which doubt as to attributability hardly ever arises.)

Mr. Hodge trusts that their Lordships will not raise objection to any over-issues which may have occurred—through a *bona fide* misunderstanding—on this account, during a period of great stress, and when some prompt and drastic action to remove the causes of bitter complaint against refusals of pensions was imperative. He fully agrees with their Lordships' view that interpretation of Regulations should not amount to alteration—although he takes a wider view than they as to the powers which interpretation give to him.

As regards the question of aggavation, Mr. Hodge is fully conscious of the objections raised to pensioning the man on his total disability, and at one time obtained the opinion of the Law Officers upon the possibility of an alteration of the Warrant; which appears to be legally feasible with certain limitations as to men voluntarily enlisted.

Upon mature consideration, however, he was compelled to abandon the idea of such an alteration. There is a very strong public and parliamentary feeling that, when a man has been passed into the Army by the doctors—rightly or wrongly—the State must in equity assume full responsibility for his subsequent illness. If he was rightly passed fit, the presumption is that his disablement is due to service. If he was wrongly passed fit, the presumption is that he was improperly subjected to the strain of military service, and that the State is responsible for the consequences. He does not think it practicable or equitable to pay only on the damage actually done by service, because of the frequent passing of unfit men into the Army, and of the fact that if such men had been left to work at their old occupation they would probably have worked at it for years without any particular aggravation or appearance of latent or incipient or undiscovered ailment or propensity thereto. If with any of these undiscovered defects, or through slipshod examination a man is passed into the service, taken away from his quiet, easygoing life with every home comfort and attention, to a life of severe drill, possible exposure, and in many cases hardship, and is broken down in the process, and then discharged physically unfit and incapable of following his old occupation, Mr. Hodge considers that to refuse to pension him according to his full disability would be inhuman and unfair. He therefore does not propose to proceed further in this matter, which, in his opinion has little bearing upon the subject immediately under discussion, viz., the extent to which the benefit of the doubt is to be given to men who claim that their disablement is attributable to or aggravated by service.

I am, &c.,
The Secretary, Treasury, Whitehall, S.W. 1. (Signed) *Matthew Nathan*, Secretary.

15694/18.

Sir, Treasury Chambers, 4th May, 1918.

I have laid before the Lords Commissioners of His Majesty's Treasury your letter of the 18th instant (6155) relative to the interpretation to be placed upon the words "medical unfitness attributable to or aggravated by military service" in the Royal Warrant governing the payment of pensions to discharged disabled soldiers.

My Lords have considered your statement that Mr. Hodge holds that the powers of interpretation entrusted to him under the Royal Warrant governing these matters give him a very wide margin of discretion in the matter at issue, and that he considers entirely within his powers a ruling to the effect that "medical unfitness attributable or aggravated by military service" shall be held to cover any medical unfitness which has arisen or become worse during military service, unless there is good evidence that the disability is not due to service or has not been aggravated by it. As this point is one of considerable constitutional and financial importance they direct me to offer the following observations thereon.

The powers of the Minister of Pensions in relation to the interpretation of the Warrant are similar to those of the Army Council in the interpretation of the Royal Warrant for pay, etc., of the Army. The question of the scope of these powers has been examined more than once in the past by the Public Accounts Committee of the House of Commons. Treasury concurrence is requisite for the original insertion in the Royal Warrants in question of all rates of pay, allowance or pension, and concurrence implies under-

standing the rates and the conditions thereof according to a fixed interpretation of them which cannot be altered without breach of faith. In the view of the Treasury, therefore, although the power of the Minister to interpret in every case of ambiguity is paramount *vis-à-vis* of the officers and men who are dealt with in the Warrants, yet if the ambiguity directly affects public expenditure the Minister ought to submit his interpretation for the concurrence of the Treasury, and if he fails to do so his interpretation is open to question by the Comptroller and Auditor-General.

The Minister is not, in their Lordships' view, obliged to submit his interpretation to the Treasury if no doubt arises regarding it. But even though there may be no doubt in his own mind, yet if his interpretation is questioned by a co-ordinate authority like the Comptroller and Auditor-General, it is necessarily doubtful and should be submitted to the Treasury if it affects matters within Treasury jurisdiction. This view has been supported on many occasions by the Public Accounts Committee. I am to refer in particular to their second Report for the year 1898 (Army Vote 14, paragraph 8) in which the following observations are made:—

"The Comptroller and Auditor-General acted in accordance with his plain duty to bring to notice any interpretation of a warrant which may seem to him not to be a natural plain and reasonable interpretation and which involves the expenditure of any public money. . . . . "

"Your Committee . . . . . emphasise the words of their predecessors in the year 1884 (2nd Report, paragraph 141) that so far as practicable the intention of a Royal Warrant according to the simple and ordinary meaning of its language should be acted upon . . . wherever a discretionary interpretation becomes necessary, that interpretation should not be opposed to, but in harmony with, the natural meaning, intention and purpose of the Warrant. That there is, in short, a limit to be placed on the power of interpretation, and that where in special cases or in unforeseen circumstances it becomes necessary in any way to deviate from the plain meaning of a warrant the concurrence of the Treasury should be obtained . . . . ." Again in 1889 (see P.A. Committee, 4th Report, 1889, par. 5) in consequence of the claim made by the Secretary of State, Mr. Stanhope, to apply his undoubted power as "the sole administrator and interpreter" of the Royal Warrant in such a manner as practically to withdraw from the Treasury its control over the expenditure consequent on his interpretation . . . . . the Committee felt bound to call attention to the fact that the claim it conceded to the extent apparently desired would have relieved the War Office from financial control to an extent without precedent in the position of other Departments (the Admiralty for instance), in relation to money voted by Parliament. . . . . The Public Accounts Committee upheld the views of the Treasury and added (2nd Report, 1892, par. 31), "The Secretary of State cannot in their opinion claim any greater freedom to disobey rules or to put an unnatural interpretation on them or to make alterations tending to increase expenditure than the Head of any other Department. . . . . ."

"The point of principle connected with the financial control of the Treasury and the claim of the Secretary of State to be the sole authority in doubtful cases which, while they involve the expenditure of voted money, may be said to depend on the strained interpretation of a Royal Warrant, is one upon which your Committee are not prepared to depart from their clearly defined position."

Their Lordships trust that the Minister will concur generally in the view stated above as to the relations between his powers as expressed in the Warrant and those of the Treasury.

As regards the particular point at issue, while My Lords gladly recognise that the new definition of the Minister is a great improvement on that formerly laid down—and They believe, moreover, that in practice there is comparatively little difference between the Minister's intention and the views of this Board—They still feel that the interpretation proposed is strained and unnatural. In Their opinion the simple and ordinary meaning of the words "attributable to or aggravated by" does not justify either a ruling that "the words shall be held to cover any medical unfitness which has arisen or become worse during military service unless there is *good* evidence that the disability is not due to service or been aggravated by it," or an instruction that "unless the probabilities are *distinctly* against the man, the benefit of the doubt shall be given to him."

In Their view the only proper course for a Department administering public funds is to hold the balance absolutely even as between the taxpayer and the individual claimant. The words in *italics* above appear to weight the scales against the taxpayer.

2. My Lords recognise, however, that in a great many cases it is a matter of extreme difficulty to determine whether medical unfitness is in fact attributable to or aggravated by service: and that hardship might be caused if it were determined that the burden of proof should rest upon the man: while, therefore, They consider that the Official formula defining the meaning of the words should not depart from their plain meaning, They are prepared as a matter of administration and in order to avoid any hardship to the men to agree to the rules which Mr. Hodge proposed to lay down for the guidance of Medical Boards and Awarders in cases of doubt provided they are amended as follows:—

(*a*) by inserting the following words "(4) the class or grade in which the man was placed at his medical examination previously to entering the Army."

(*b*) by omitting the word "distinctly" in the last paragraph of the proposed rules.

3. With reference to Mr. Hodge's request that Their Lordships will not raise objection to any over-issues which may have occurred through a bona-fide misunderstanding in the period during which the instructions to the Medical Boards and Awarders contained the words "conclusive evidence that the disability was not due to service or aggravated by it" or words to that effect, Their Lordships sanction the writing off of any over-payments which may be found to have been made in consequence of the wording of this instruction on the following conditions:—

(*a*) the over-payment should be taken into account in estimating the amount of any payment which may be made to the man out of Ministry funds, after the error has been ascertained by further medical examination;

(*b*) an approximate estimate of the amount disclosed as having been over-issued should be inserted in a note to be appended to the Appropriation Account for 1917/18, similar notes of any cases subsequently disclosed being appended to the Account for 1918/9, and if necessary to that for 1919/20.

I am, &c.,

The Secretary, Ministry of Pensions. (Signed) *T. L. Heath.*

6155.

13th May, 1918.

Sir,

I am directed by the Minister of Pensions to acknowledge the receipt of your letter of the 4th instant, No. 1569 relating to the interpretation of the words "medical unfitness attributable to or aggravated by military service."

Mr. Hodge is glad to find that there is little substantial difference between the views of the Lords Commissioners of the Treasury and himself upon the point at issue. As stated in the previous letter from the Ministry he accepts the general principle that interpretation of Regulations should not amount to alteration; but he does not hold that an "alteration" is involved in deciding to give the benefit of reasonable doubt to claimants, bearing in mind that the doubt arises largely from the unreliability of the medical examination of men entering the service; a default which naturally throws the onus of disproof upon the State.

2. As regards the exact wording of the Rules under discussion, it appears to Mr. Hodge that the proposals made by the Treasury scarcely indicate sufficiently the intention of giving the benefit of reasonable doubt to the man, or afford sufficient guidance to the staff applying them. In the doubtful cases it cannot be said definitely whether the probabilities are for or against the man; and the object of the Rules is to indicate that just in these cases benefit of the doubt is to be given him. Probably Their Lordships will agree that the general principle may be expressed in the form that the verdict shall be in the man's favour "unless it is clear that there is a balance of evidence that the disability is not due to service or been aggravated by it"; and the Working Rules should be amended as follows:—

(i) (4) to be added as proposed by the Treasury.

(ii) the last paragraph to read, "Unless it is clear that the balance of probability is against the man, the benefit of the doubt shall be given to him."

Mr. Hodge trusts that agreement has now been reached in this matter.

As regards cases previously dealt with, while re-examination and application of the new version of the Rules will right any error which may have been caused by the old version, Mr. Hodge considers that, in the present overwhelming stress of work, it is impracticable to calculate in detail what might have been awarded as a gratuity if the case had been regarded as non-attributable. These gratuities are of a discretionary nature, and sometimes amount to more than a conditional pension for a limited period. Consequently the correct determination of attributability, while it has a large effect on the future, has not great financial effect during the earlier period of award. Moreover, in cases in which the disablement is found to have ceased, an enquiry into the correctness of the past award would be profitless. Mr. Hodge therefore proposes that—as has been the practice in the past—the erroneous award should remain upon the vote for the period during which it stands, instead of being written off.

As regards the individual pronounced "non-attributable" upon re-examination, the period for which pension has already been issued will be taken into account in determining what, if any, further issue shall be made to him (non-attributable grants now take the form of a pension for a limited period); but if under these conditions no further award is allowable, Mr. Hodge proposes to give the terminal gratuity of £5, to avoid the hardship of abrupt termination without warning.

I am to ask for the earliest possible reply to this letter, as it is highly desirable to put the Rules into immediate operation.

I am, &c.,

The Secretary, Treasury, S.W. 1. (Signed) *Matthew Nathan,* Secretary.

19068/18.

25th May, 1918.
Treasury Chambers.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury your letter of the 13th instant (6155) relating to the interpretation of the words "medical unfitness attributable to or aggravated by military service."

In reply, I am to state that My Lords agree that the proposed instructions to medical boards satisfactorily carry out the general principle of giving the disabled man "the benefit of the doubt"; and as they assume it is intended to adhere to the plain meaning of the term "attributable to or aggravated by," they are glad to record that agreement has been reached on the question.

As regards cases already dealt with, My Lords will not in the circumstances press the Minister to compile statistics of the difference between actual payments and the gratuities which might properly have been awarded. As Mr. Hodge, in your letter of the 18th ultimo, has undertaken that any cases of conditional awards coming up for reassessment will be reviewed strictly upon the standard of the revised formula, they agree that the erroneous award may remain upon the vote for the period during which it stands, a note in general terms being added to the Appropriation Account that the account includes certain payments under erroneous awards, but that it has not been possible to determine the difference between actual payments and the gratuities which might properly have been awarded.

I am, &c.,

The Secretary, Ministry of Pensions. (Signed) *John Bradbury.*

Ministry of Pensions, 20th June, 1918.

9884.

Sir,

I am directed by the Minister of Pensions to state that he has had under consideration certain administrative difficulties which have arisen out of the undertaking given by him and referred to in Sir John Bradbury's letter, 19068 of the 25th May, on the subject of the interpretation of the words of the Royal Warrant, "medical unfitness attributable to or aggravated by military service."

This undertaking was to the effect that any cases of conditional awards coming up for reassessment should be reviewed strictly upon the standard of the revised formula agreed to by the Lords Commissioners of His Majesty's Treasury.

2. In connection with this undertaking their Lordships will readily understand that once a medical verdict has been given on a case, the administrative staff of the Ministry would not attempt to revise such verdict without obtaining further medical opinion, and that with the numbers of medical officers available in the Department, it is a practical impossibility that every case which comes up for renewal of pensions should

be seen by one of them. It has, however, been arranged that certain classes of cases shall be referred for medical opinion; in others which constitute the majority, it has to be left to the staff to judge whether they should or should not be reviewed. The only alternative is a very large increase in the medical staff. This explanation is necessary, as Their Lordships may have been under the impression that all cases would have a further medical review.

3. On the number of cases where men have been given more than the proper benefit of the doubt, there is a strong difference of opinion within the Ministry of Pensions. The Director of Finance, judging from certain formulae laid down either by medical experts from outside or by orders within the Department, and by certain cases to which his attention has been directed, fears that in a considerable number of cases men have been given the benefit of the doubt to an excessive extent. The Administrative Staff, on the other hand, think that such cases have been few in number compared with the vast number in which awards have been made, and that medical opinion has, on the whole, tended to set up a fairly severe standard. They point to the fact that up to now practically in half the cases of men discharged for medical unfitness not due to wounds, which are practically the only ones in which the question of attributability or aggravation arises, the disability has been treated as not attributable, and they also lay stress on the growing number of cases which, on further information or by examination by Judge Parry's tribunal, have afterwards to be accepted for pension.

Whatever, however, the number of these cases may be—and so far on review the number is at present small—Their Lordships will easily realise that to stop a pension once awarded is a most serious matter, and calculated to bring His Majesty's Government into real discredit in the country. Among the cases now under review are cases which were at first rejected, then allowed on appeal, and now, on re-examination of the papers by a medical officer of the Department, again proposed to be rejected on the ground that the disability should never have been considered attributable to or aggravated by service. Such repeated changes of opinion will not be understood, and will be much resented by the country.

5. Eyesight cases constitute a majority of those thus far reviewed, the Department now including in the Staff an eye specialist, who sees every case of loss or impairment of vision. These are very distressing cases which are bound to receive exceptional sympathy on the part of the public; among them is that of a man who had been through one of the severest actions of the war and first found his sight failing thereafter

6. While Mr. Hodge is prepared, though with misgivings as to its present effect upon the public, to stop any pension which may have been awarded in error, he is not prepared to accept any change of medical verdict as evidence of error, and much as he values the opinions of his present medical staff, he is, after giving the fullest reconsideration to the matter, not able to undertake that the same strict standard of medical criticism as will be applied to new cases shall govern the disposal of those on which a previous medical verdict as to attributability or aggravation has been passed and acted on.

Mr. Hodge is anxious to protect the interests entrusted to him of the taxpayer as well as those of the disabled men, but he cannot see that the former will be furthered by the publicity which will inevitably follow the stoppage of a pension of a still disabled man, on account of a new medical opinion or for any other reason than an official (medical or clerical) error or the man's own misconduct.

I am, &c.,

(Signed) *Matthew Nathan*, Secretary.

The Secretary, Treasury, S.W. 1.

ENCLOSURE III.

NOTE UPON THE ATTITUDE OF THE ACCOUNTING OFFICER TOWARD "GENEROSITY."

As Accounting Officer I am not concerned with the generosity or otherwise of the Regulations so long as they are duly authorised, but I am responsible for watching that, when they are so authorised they are observed in practice, that they are applied and interpreted in accordance with the plain and natural meaning of their terms, and that claimants under them are neither denied what the Regulations give nor granted what the Regulations do not admit. If it is desired either to extend or restrict any general grant, the Regulations should be amended by due authority. If an individual deviation is thought equitable under the peculiar circumstances of an isolated case, Treasury authority should be obtained under the dispensing warrant or otherwise.

While I am not concerned with the generosity of Regulations, generosity of administration and interpretation concerns me intimately. Under the well-known Treasury minute, which was fully approved by the Public Accounts Committee, if accounting officers are desired to order a payment which, under Act of Parliament, Order in Council, Royal Warrant, Treasury minute, or otherwise, they believe to be wrong, they must represent their objection, and the reason for it in writing, and must obtain the authority in writing of the supreme chief of the Department before obeying.

I am, therefore, compelled to judge whether interpretation is or is not justifiable. The judgment of an Accounting Officer in this respect is of course personal. I make the following observations with the view of indicating my personal equation :—

1. I should regard generosity to the extent of giving the benefit of reasonable doubt as admissible even without the sanction which the Treasury have given to this.

2. In an individual case I should not press my personal view to the point of formal protest in what was essentially a matter of opinion, or, unless some important principle or precedent was involved, if the deviation from warrant was slight.

3. If, however, I find that in a number of cases my judgment is consistently against the decisions, and even though I could accept them as isolated instances under (2), I must draw attention to the practice as virtually amounting to alteration of the warrant as I read it.

4. I should consider that I was justified in accepting a reasonable "human" rather than a strictly "legal" view in judging questions of claim and conduct—*e.g.*, I should not charge a young soldier with serious negligence because his injury occurred through jumping into a moving train, or running down stairs three or four at a time. (This does not mean that I should regard the accident as attributable to service.) Neither should I take advantage of a claimant's urgent need to close with him for less than a fair compensation.

As any protest against generosity is likely to lead to an accusation of ungenerosity, perhaps the Committee will allow me to mention that when I was under examination in 1916 there was a little discussion,

not thought to demand record, whether I did not take a rather "generous" view, for an Accounting Officer, in such matters.

I make these remarks to show that I approach this matter from as generous a standpoint as his duty allows an Accounting Officer to take, and only animadvert upon such generosity as, in my view, amounts virtually to a misinterpretation or change of Regulations.

15/6/1917. *J. A. Flynn.*

ENCLOSURE IV.

INSTRUCTIONS TO EXAMINERS.

F.

I am not clear that the formulas ordered to govern the decision of cases of attributability in mental and tuberculous cases will not cover instances which are not sanctioned by the words of the Warrant. I wish examiners to consider such cases *by the Warrant itself*. If a case which does not appear to them to come within the ordinary sense of the words of the Warrant has been passed under a formula, and in their opinion does come under the formula, they should not raise a query without directions, but submit the point to me.

I should like to see some sample cases anyhow, even if the examiners would not propose to question any.

J. A. F. (Director of Finance).
19/9/17.

NOTE ON INSTRUCTION.

This question has now been put on a sounder footing by further instruction of 2/10/17.

J. A. F.
6/10.

ENCLOSURE V.

(A)

TUBERCULOSIS CASES ADMITTED TO BE PENSIONABLE IN ACCORDANCE WITH THE FORMULA.

Several cases of Naval ratings suffering from tubercular disease were noted, in which the Surveying Boards had decided that the disability was neither attributable to, nor aggravated by, service. The Medical Director General at the Admiralty, to whom they were referred, accepted all as pensionable, with the remark that the cases became attributable in accordance with the instructions received (the formula). In consequence of the form of this certificate the cases (15 in number) were reconsidered, and it was decided that 11 could be admitted, but that in the other four cases, naval service had neither caused nor aggravated the disease. (The discussion on these cases is contained in Ministry file 3896.)

(B.)

DOUBTFUL CASES ADMITTED AS PENSIONABLE UNDER FORMULAS.

The Director General of Medical Services, Chelsea, having certified in two cases of insanity, and two cases of tubercular disease that the men's condition had been aggravated by service, and that they were *very* doubtful cases, the Director of Finance asked (17/1/18) for explanation, remarking—

"In all these cases the decision appears to me to be unsupported by evidence, and against such evidence as is on record. Medical opinion which says 'a very doubtful case' is evidently applying the benefit of the doubt formula to the extreme."

In reply the Director General of Medical Services, stated—

"I have looked carefully through these four cases and, in arriving at the decisions given in each instance, I have been guided by the following instructions, &c., issued by the Pensions Minister on various dates in 1917 :—

(*a*) Formula re *Tuberculosis* on 18th June.
(*b*) Formula re *Insanity* on 21st August.
(*c*) Minute bearing on (*a*) and (*b*) of 2nd October (intd.) A. G. B.
(*d*) Memorandum of 4th October (intd.) J. H.

I might point out that the wording of (*d*) is as follows :—

'Where a man is discharged in consequence of medical unfitness for further service it shall be presumed that the cause of his unfitness was due to service unless—

(*a*) *There is conclusive evidence to the contrary*, or
(*b*) that such unfitness was due to his own serious negligence or misconduct.'

It will, therefore, be observed that in view of the above instructions very little latitude is given to any M.O. in forming his individual opinion in cases that are so frequently of a very complicated nature.

As regards insane cases, I am in the habit of referring those about which I am in doubt to Lt.-Colonel Turner (a mental expert) and my experience of that gentleman's decisions is that they are, as a rule, far more indulgent to the invalid than mine are wont to be.

If objection is taken to the use of the word 'very' I am quite prepared to drop it in future."

He was then asked to consider, "whether there is 'good' evidence against the claims and whether the men are given more than the benefit of reasonable doubt."

To this question he replied :—

"The evidence against the claims in the cases under discussion is *good* but not *conclusive*, and the men have been given more than the benefit of reasonable doubt."

These cases have now been reconsidered, and on the advice of the Senior Medical Assessor it has been ruled that pension had been incorrectly awarded in the two cases of tubercular disease In the two lunacy cases one was held to be pensionable, and the other has been referred to a mental expert. (Ministry File 7425.)

DETAILS OF CASES REFERRED TO IN THE FOREGOING STATEMENT.

1.—Private ——, A.S.C., enlisted 22/12/1916, discharged 15/6/1917. Colour service, 6 months, all at home. The disability, dementia, originated about 28/4/1917 at Winchester, where he was admitted to

hospital, being very strange in manner and getting up at night to clean his harness. The Medical Board's opinion on discharge was that the disability was neither due to nor aggravated by active service, climate, or ordinary military service. Incapacity, total. The Officer i/c Records, Woolwich, reported that the man was not subjected to any physical or mental strain while serving and was not under canvas. The man stated he had previously served for 2 years and 6 months in the Scots Greys, enlisted 24/10/14, date of discharge not known; disability, enteric fever. The man's brother stated he had been in an asylum before.

All papers were submitted to the Director General, who regarded the man's condition as aggravated by service since declaration of war. Incapacity, four-tenths through service but a *ver* doubtful case.

Pension awarded 11s. a week for 52 weeks.

2.—Private ———, 3rd Gordon Highlanders, enlisted 14/2/1916, discharged 24/11/1916. Colour service, 9 months. Disability, confusional insanity. The man was admitted to War Hospital, Dundee, on 14/8/1916 with history of a fit and of having been delirious, was dirty in habits and had marked tremors. On 26/8/1916 he was transferred to Dykebar War Hospital, Paisley. On admission he was hopelessly confused, and auditory hallucinations were present. He had no fits after admission to this hospital. The opinion of the Medical Board on discharge was that the disability was not due to active service, climate, or ordinary military service. His case was submitted to the Director General, who recommended re-examination by a Medical Board as to aggravation. The examination was held on 16/10/17, and the Medical Board reported that there is no evidence that his condition is due to active service, climate, or ordinary military service. Incapacity, total, permanent. The case was re-submitted to the Director General with Medical Board's opinion, and the Director General decided that man's present condition may be regarded for pension purposes as aggravated by service since declaration of war. Incapacity, five-tenths through service, but a *very* doubtful case.

Pension awarded, 13s. 9d. a week for 52 weeks with allowance for 2 children.

3.—Private ———, 1st Garrison Battalion, Worcesters, enlisted 9/11/15, discharged 25/9/17. Colour service 3 months. Disability, phthisis. This man had a cough a year previous to enlistment and in November, 1914, he consulted his own doctor who pronounced him to be suffering from phthisis. He was enlisted a year afterwards and he stated, according to the Medical Board's report, that he was marked in Category "A" and went back to his railway work. On 23/3/17 he was called up and classified B1, pending examination of sputum, was again sent back to work and recalled for service on 22/6/17. There is some family history of phthisis. Unable to do short route marches of 4 miles. Medical Board's opinion on discharge was that the disability was not due to active service, climate or ordinary military service, degree of incapacity ½, capacity not lessened by military service. The Tuberculosis Officer, Birmingham, reported 23/3/17 as follows:—(a) Some signs which suggest a localised quiescent lesion at one apex. (b) T.B. (c) Examined as suspect in 1914. An exposure report was called for and the Officer i/c Records, Warwick, states that the man was not subjected to any hardship, exposure or inclement weather and was never under canvas during his service. The case was submitted to the Director General, who decided that the man's present condition may be regarded as aggravated by service since declaration of war, degree of incapacity 30 per cent. through service, but a very doubtful case.

Pension awarded, 8s. 3d. per week for 52 weeks with allowance for 2 children.

4.—Driver ——, R.F.A., enlisted 9/12/1916, discharged 5/2/1917. Colour service 2 months. Disability, pulmonary tuberculosis. The man had been ailing for 2 years previously to his being called up with pains in the gastric region and bad cough. He was admitted to hospital 29/12/1916. T.B. found in sputum. The Medical Board's opinion on discharge was that the disability was not due to service, climate, or ordinary military service; disability, 50 per cent. The Officer i/c Records, Woolwich, reported he was not subjected to any strain or exposure or inclement weather, was not under canvas, and was properly clothed. This report and all relative papers were submitted to the Director General, who decided that the man's present condition may be regarded as aggravated by service since declaration of war. Incapacity, four-tenths through service, but a very doubtful case.

Pension awarded, 11s. a week for 52 weeks with allowance for one child.

(C)

CERTAIN CASES OF PENSION CANCELLED AS THE RESULT OF OBJECTION ON AUDIT.

Rank and Regiment.	Particulars of Disability, etc.	Opinion of Medical Board.	Opinion of Medical Branch.	Final Decision.	Original Award.	Amended Award.	Reference Ministry Papers.
Band Boy, S. Staffs.	Dilatation of myocardium. Boy, 14½ years. Cardiac trouble before enlistment. Five days' effective service.	Aggravated	—	Could not have been aggravated. — Advisory Board.	8/3 for 52 weeks.	Art. 7 (2) Gratuity £7 10s.	8257
Rifleman, Rifle Brigade	Dilatation of myocardium. Had disability from childhood. Eight days' effective service.	Aggravated	—	Could not have been aggravated by eight days' service. —Advisory Board.	13/9 for 44 weeks.	Art. 7 (2) Gratuity £12 10s.	8257
Private, 1st City of London	Injury to left wrist. Three months' effective service.	Aggravated	—	Weakness results from old fracture. There is no evidence of aggravation. —Advisory Board.	5/6 for 52 weeks.	Art. 7 (2) Gratuity £10.	8257
Private, Training Reserve	Club-foot (talipes). Condition existed since childhood. Seven days' effective service.	Aggravated	—	Could not have been aggravated by short service. — Advisory Board.	27/6 for 44 weeks.	Art. 7 (2) Gratuity £25.	8257

Rank and Regiment.	Particulars of Disability, etc.	Opinion of Medical Board.	Opinion of Medical Branch.	Final Decision.	Original Award.	Amended Award.	Reference to Ministry Papers.
Driver, R.F.A.	Tubercle of lung. Deserter, recovered after, seven months, and at once admitted to hospital for tubercle.	Aggravated	Aggravated 20 per cent. (service).	Advisory Board of opinion that Tubercle originated during desertion.	5/3 for 7 months, then 5/6 for 56 weeks.	Art. 7 (2) Gratuity £7 10s.	8257
Private, Yorkshire Regiment	Defective vision. No evidence as to condition on enlistment.	(1) Aggravated. Disability, half (8/7/16). (2) Capacity not lessened by military service—disability quarter owing to squint (3/11/16). (3) Disability *for pension purposes*, nil (2/3/18).	(1) Disability 40 per cent. permanent, 21/3/18. (2) Eye Expert—5/4/18. The disability is 40 per cent., but there is not and never has been aggravation. (3) Senior Medical Assessor agreed, 5/4/18.	Advisory Board, 25/4/18. — Aggravation passed away—no further award.	10/- for 26 weeks, 9d. a day for one year, 8/3 a week 4/4/17.	No further award.	I 1462
Private, Labour Corps	Chronic otitis media of old standing. Two periods of service. Reported sick two days after re-enlistment.	*First period:* Neither caused nor aggravated (6/1916). *Second period:* Aggravated (12/12/17).	Neither due to nor aggravated. Incapacity 30 per cent. "This man seems in same condition as before first enlistment."	Award amended	27/6 for 4 weeks, 8/3 for 48 weeks.	Art. 7 (2) Grat. £25 1st period, £7 10s. 2nd period.	A 6959
Air Mechanic, R.F.C.	Bronchitis. Man a Cingalee. Arrived in England, January, 1918, enlisted 22nd January, admitted to hospital 4th February, while on leave.	Due to exposure to wet and cold.	Neither attributable to nor aggravated.	Award amended	27/6 for 4 weeks, 5/6 for 48 weeks.	Art. 7 (2) Gratuity £7 10s.	A 6957
Private, Suffolk Regiment	V. D. H. Had disability from childhood. Admitted hospital after three days effective service.	Aggravated	Neither attributable to nor aggravated.	Award amended	27/6 4 weeks, then 5/6 for 22 weeks.	Art. 7 (2) Gratuity £10.	A 6879
Private, Durham Light Infantry	Tuberculosis. Transferred to Reserve after three months' service. Discharged a year later.	Aggravated	(1) Aggravated according to formula of 4/10/17. (2) Neither due to nor aggravated. The man became worse while in the Reserve.	Award to be cancelled.	5/- a week 22/11/16—26/2/18, 5/6 for 78 weeks from 27/2/18.	—	A 3998
Private, Rifle Brigade	Asthma. Admitted to hospital after three days' effective service.	Aggravated	Neither due to nor aggravated.	Award amended	27/6 for 4 weeks, then 13/9 for 35 weeks.	Art. 7 (2) Gratuity £10.	A 6479
Private, London Regiment	Man an epileptic. Mobilised 5/8/14. Discharged 8/9/14. Treated in May, 1915, for burns claimed to have been due to an accident in camp during mobilised service.	... ...	Epilepsy not due to nor aggravated. Burns doubtfully attributable, but benefit of doubt given.	On further investigation the accident was proved to have occurred after discharge.	11/- a week permanent.	Art. 7 (2) Gratuity £7 10s.	A 5243
Private, S. Wales Borderers	Rheumatism. Admitted to hospital four days after being posted. Appealed a year after discharge.	Aggravated	Evidently had rheumatism before enlistment. Cannot be due to or aggravated by four days' military service.	Award to be amended.	27/6 for 52 weeks.	Art. 7 (2) Gratuity £25.	A 6936
Sgt.-Major, Royal Munster Fusiliers	Discharged on account of age, 69. In receipt of service pension of 42d. a day.	"Aggravated by Military Service."	Disability "nil." "He is evidently better than most men of his age."	Award to be amended	27/6 4 weeks, then 5/6 48 weeks	Art. 7 (2) Gratuity £30.	A 6226

(D.)

ILLUSTRATION OF CUMULATIVE EFFECT OF GIVING THE BENEFIT OF THE DOUBT—MINUTE FROM MINISTRY OF PENSIONS PAPER O.A. 3867.

Secretary,

This case illustrates the extent to which we give the benefit of the doubt in regulations and in their administration. Under your ruling the officer really gets this benefit three times.

1. It is doubtful whether the officer retired under such circumstances that he is fairly entitled to a pension. He was charged with theft of stores and unbecoming conduct. The former is an offence which would bar pension if proved. The case was not tried out of compassion to the officer as he was suffering from cardiac debility, and considered unfit to undergo trial. He has subsequently been given the benefit of the doubt by the War Office and allowed honorary rank; but I do not think this relieves us of the duty of forming a judgment upon the case for the purposes of dealing with the claim to pension.

I remember a case, in my War Office days, in which an officer so accused died (I think it was suicide, but am not sure) before trial. The War Office formed a judgment as to his guilt or otherwise before dealing with the widow's claim to pension. You propose to give the officer the benefit of the doubt.

2. If the officer is not disentitled under (1) his claim depends upon his disablement being attributable to or aggravated by service. It is stated to be *probably* aggravated. The degree of probability is not assessed, and no evidence or reason is given in support of the conclusion.

3. If it is assumed (1) that the officer is eligible, and (2) suffered *some* aggravation, the regulations give him a pension for his *whole* disablement—£140 a year.

Suppose that the chances in (1) and (2) are half in the officer's favour in each case, and that the aggravation is to the extent of half, which I think are assumptions very favourable to the officer, especially under (2), in view of the absence of any evidence to support the case. This means that, in equity, out of four cases there would be one pension of £70 a year. Under our regulations and administration there will be four pensions of £140 a year, or £560 a year in all.

When you consider that these principles are applied throughout our work, the effect of (2) and (3) must be very great.

In this particular case I consider that before granting a pension we should clear up (1), and ask for the evidence or grounds upon which it is considered probable that the disablement was aggravated by service, and the degree of probability estimated.

(Signed) *J. A. Flynn.*
12/6/18.

(E)

PROCEDURE OF THE APPEALS BOARDS, CHELSEA.

Some cases that were accepted as pensionable by the Appeals Boards at Chelsea were questioned, as the grounds for their decision were not apparent, and the following explanatory note of the procedure of these Boards was received from the Head of the Tribunal Appeal section, 11th March, 1918.

"The position of the Appeal Boards has never been very well defined, and the time has now come when it is indispensable that some written letter of instructions should be drawn up. Unless this is done misunderstandings are inevitable.

It may be well to describe the position as it has hitherto been understood.

1. The Appeal Boards were instructed to relieve the Advisory Board of the work of examining appeals to the Tribunal and allowing such as seemed proper for allowance, passing the rest on to the Tribunal for decision.

2. At the start, the President of the Advisory Board met the Appeal Boards and instructed them as to their functions. They were to act on the lines set forth in Mr. Hodge's circular of 4th October (copy attached), and were to take the place of the Advisory Board in regard to Tribunal appeals. Being equipped with a medical member, they were like the Advisory Board, competent to override any medical opinion previously recorded.

3. When the Boards were started there were a considerable number of appeals awaiting them, and these were added to largely every week.

4. Consequently, on the advent of Circular 17*, there was no small accumulation of appeals on hand. It would have swamped the local committees to have returned all these for report under Circular 17, especially as no machinery existed, either in the Ministry or with the committees, for putting the circular into practical operation. Those cases which were already on hand were therefore dealt with by the Boards, fresh appeals being referred to the Committees. It may be noted that at nearly every centre in the provinces visited by the Tribunal, there have been found committees who knew little or nothing of Circular 17, and did not know how to carry it out. Things are better now, and, so far as I am able to judge, Circular 17 machinery is now working efficiently.

I think this note will explain the situation and do something to clear up some of the points which have hitherto been in doubt. You will remember that Sir Arthur Boscawen recently desired the Appeals Boards to let him see cases in which they were in doubt, and I think all that is wanted now is some written instructions to the Boards, and the authoritative version of the Circular of October 4th, which, I understand from D. of F., has been modified somewhat. At present Appeal Boards are in an embarrassing position. They have hitherto had much criticism for passing on too many appeals to the Tribunal, and not being sufficiently bold in dealing with appeals themselves. Now comes criticism for over-readiness to allow appeals themselves instead of passing them to the Tribunal, their only alternative, as they cannot reject the appeal. All they ask for is clear leading as to what is expected of them, and this will best be achieved by some written instructions. I should be glad if you would kindly submit this minute for authoritative decision. Until there is such a decision, little good will come of discussing specific cases which have been dealt with by the Boards on the lines on which they believe they were intended to act."

These cases have been reconsidered and referred to the Senior Medical Assessor at Chelsea, whose opinion is against the Appeal Boards' decision in one case and supports it in three others. One has been submitted to a Lunacy expert. (The relative Ministry papers are I 1212).

(F)

DEATH OF NAVAL OFFICER FROM DELIRIUM TREMENS.

A naval officer retired voluntarily in October, 1911, after 16 years' service in the Royal Navy. His retirement was due to disease of the nervous system consequent on repeated attacks of sciatica, which he first contracted in China in 1901 when serving.

He retired and shortly after, in November, 1911, married. About the same time, according to his widow, he invested all his capital in a business undertaking, which he had to abandon on being called up at the outbreak of war, with the result that his capital was lost.

He rejoined the Royal Navy in July, 1914, and served continuously until 3rd December, 1916, when he died in Haslar Hospital from D.T.

His war services include the landing and evacuation of Suvla Bay, 1915-16, while in command of a ship According to his wife's statements he was wounded in the leg during these operations, but did not report himself as a casualty and consequently did not receive medical treatment, and he was also suffering from

* It was some time before copies of Circular 17 reached Chelsea and were circulated for general information.

NOTE.—Circular 17 directed Local War Pension Committees to investigate claims and obtain evidence, and to send this information, with their opinion of the case, to the Ministry.

dysentery, insomnia and mental depression. The official medical history confirms the statements as to dysentery and insomnia, and shows that, on the 6th October, 1916, 5 days after his return to England, he was sent to Invergordon for duty on mine-sweeping and experimental work.

After nearly 2 months he returned to Portsmouth on the 28th November, 1916, for duty, and was admitted to hospital on 2nd December, suffering from acute mental disease with a history of alcoholic excess and died the following day.

An application from the widow in January, 1917, for pension was refused, chiefly on the certificate of the Medical Director-General, that "from the evidence available it appeared that the officer did not lose his life from causes attributable to the service." Further representations were made to the Admiralty on the widow's behalf, two Admirals under whom the deceased officer had served expressing their high opinion of his services and devotion to duty and ascribing his addiction to alcohol, which was the immediate cause of his death, to his determination to keep himself going at all costs in spite of his ill-health.

On reconsideration, and after reviewing all the facts, the Medical Director-General advised that the disease was aggravated by the abnormal conditions of naval service. He was of opinion that the officer's general health had been undermined by the arduous nature of his duties in Gallipoli, where he suffered from dysentery and insomnia, and the subsequent strain of mine-sweeping, and that his debilitated condition caused the alcoholic stimulants which he took to sustain himself for his duty to have an effect on him which they probably would not have had on a man in good health.

In view of this opinion a pension of £105 a year and a child's allowance of £20 a year, with effect from 1st April, 1917, was authorised under Article 11 (3)a of the Order in Council of the 29th September, 1917.

The Finance Branch, having regard to (1) the insufficient evidence that the officer's indulgence was due to the strain of service and (2) the provision of Article 11 (3)a that death must not be due to serious negligence or misconduct, expressed the opinion that Treasury authority should have been obtained.

The sanction of the Treasury to an award under the dispensing O. in C. was then sought, but the request has not been acceded to. [The relative Ministry papers are O.N.F. 30925.]

(G.)

Lance-corporal ——, Essex Regiment, was discharged 3/9/1914, for myopia. He had served in Malta, Burma and India before the war, and claimed when medically boarded, 1/2/1915, that the sun and white houses of Malta had affected his sight in 1906. The Board did not consider his disability due to service or climate.

On 22/7/1915, he re-enlisted, and after service at home was discharged 3/8/16, again for myopia. A Medical Board before whom he appeared, 19/7/1916, was of opinion that his disability was not due to nor aggravated by service, and that his capacity was not lessened since re-enlistment. A further Medical Board of 30/4/1917, considered that it was aggravated by military service, and the case was then referred to the Medical Branch at Chelsea, which certified that his condition had been aggravated by service since the declaration of war, disability 3/10th temporarily, "a doubtful case." Pension was then awarded accordingly. On being examined for renewal of pension, 6/4/1918, the Medical Board stated the degree of disablement for pension purposes was nil. Further reference to the Medical Branch was made, and the eyesight expert at Chelsea assessed the degree of disability at 60 per cent. for a non-attributable gratuity. The case was re-submitted to him with the remark that it had been accepted as aggravated, and therefore a gratuity could not be given. He thereupon certified to aggravation, and made an assessment of 60 per cent, permanent. On audit the proposed grant of 16/6 permanently was questioned, and the Senior Medical Assessor stated :—"This belongs to the very rare class of cases where it is possible for an error of refraction to be aggravated by military service (a case of high myopia). Aggravation is therefore possible, but not probable. In this case, as it had already been allowed, the benefit of the doubt was given the man, although the doubt was considerable."

The case was then submitted to the Advisory Board, who decided that the man's disability should be accepted as having been aggravated by service. (Ministry papers L 3a (F 2.))

Will be put before the Minister.

(H.)

MINUTES UPON A CASE OF DOUBTFUL AGGRAVATION. EXTRACTED FROM MINISTRY FILE 10138.

D. of F.,

2nd Air Mechanic ———, R.F.C., who served from the 12/2/17 to 22/3/18, had suffered from tuberculosis in civil life, on account of which his right foot had been amputated (mid ⅓ leg) in 1900. The disease had also manifested itself in the back, which left "very deep scars." His disabilities were noted on Army Form B. 178, which records his classification as C. II.

During his service in the R.F.C. he was employed as a bootmaker, etc. (his own trade), but appears to have been continuously sick, and to have lost weight—1 stone in 6 months—according to the B. 179. He was discharged on account of the disabilities already mentioned, the Medical Board of the 1/3/18 finding that they had been neither caused nor aggravated by service. The Board, however, treated the incapacity question as "not applicable," and it therefore became necessary to refer the case to the Medical Branch to assess the degree of disablement. On this being done the Medical Branch assessed the incapacity at 60 per cent., and decided that the man's disability had been aggravated by service in the present war. Pension has been awarded in accordance with this decision.

There is no evidence that the conditions under which the man served in the Army were worse than those which obtained in his civil life, and as he continued his former occupation the concession of aggravation by service would appear to rest on very slender grounds.

(Intd.) *C. G. W.*
24/4/18.
F B. T.
25/4.

Mr. Sanger,
This claim does not appear to be supported by any evidence

(Intd.) *J. A. F.*
9/4.

Mr. Plummer,
Mr. Sanger will be glad to have Dr. Gossage's report on this case.

(Intd.) *J. A. S.*
30 Apl. 1918.

S.M.A.,
Submitted.

(Intd.) *W. H. C. P.*
1/5/18.

Mr. Plummer,
Mr. Simes,
It is perfectly clear that this man's general condition became considerably worse whilst in the Army, and, therefore, aggravation must be conceded. There was no actual lighting up of fresh tuberculosis, but he was invalided because of the deterioration of his general health.

(Signed) *A. W. Gossage, S.M.A.*
1/5/18.

D. of F.
In view of Dr. Gossage's report it would appear that the case must be accepted as aggravated. Do you concur?

(Intd.) *J. A. S.*
3 May, 1918.

Mr. Sanger,
I am afraid I am far from satisfied. Undoubtedly the man deteriorated *in* the service; but why is it supposed that this was *by* the service, even to the extent of aggravation? He was employed at his own trade while he served; and I expect he was probably better fed, clothed and housed than he would have been in private life. Why is it supposed—without any evidence—that being in the Army had any prejudicial effect on him?

(Intd.) *J. A. F.*
3/5.

Mr. Plummer,
Perhaps S.M.A. will report further.

(Intd) *J. A. S.*
3 May, 1918.

S.M.A.,
For your further observations, please.

(Intd.) *W. H. C. P.*
4/5/18.

Mr. Plummer,
This man ought *not* to have been taken into the Army, and when taken ought *not* to have been employed at anything at all. I quite agree with the D. of F. that if he had been employed in civil life he would probably have arrived at the same condition as he is in at present, but he was in the Army, and we cannot say what would have occurred in civil life. In view of the ruling that in cases of doubt the man should have the benefit, aggravation must be conceded.

(Intd.) *A. W. Gossage, S.M.A.*
6/5/18.

Mr. Sanger,

(Intd.) *W. H. C. P.*
7/5/18.

D. of F.,
I agree.

(Intd.) *W. S.*
8/5/18.

Mr. Sanger,
I am sorry, but I do not agree. The case is quite clear. It is this:—
A man is taken into the Army and employed at his pre-war trade. There is no allegation that he was subjected to any special hardship. He was admittedly a weakling, and he became worse. Also admittedly the probability is high—almost a certainty—that he would equally have become worse if he had gone on just as before enlistment.
I take it that you do not question the above? I continue on the assumption that you do not.
To grant pension in such a case is not giving "the benefit of the doubt" in an approximately balanced case. It is giving the benefit of a tiny fraction of doubt—just a bare, unlikely possibility that service *may* have had a bad effect on the man. This we are not entitled to do by the Warrant, and it is outside the conditions that we have proposed to the Treasury. I must ask that steps be taken to cancel the award.

(Intd.) *J. A. F.*
9/5/18.

Secretary,
Sir A. G. Boscawen,
As the Advisory Board does not meet till next Thursday I should be glad of the Chairman's ruling. My own view is that of Dr. Gossage. The man should not have been taken in with the disability, but serious deterioration has taken place in that disability, and though he would probably have grown just as bad in civil life we have no certainty of that. The Army took on our behalf an outrageous risk in taking the man in; that risk has materialised, and, as Dr. Gossage suggests, employment of any sort in the Army (or elsewhere) would help the disease to develop.
I frankly admit (and D. of F. must use this admission as he wishes, only we must act with our eyes open) that I view the stoppage of a pension once granted with considerable concern, unless we are able to say that

any aggravation has passed away. I see and handle all these cases myself, and I am fully impressed with the differences of medical opinion (there is a difference here) which we continually find and which lead us in the direction of "no finality." I share the view of the Parliamentary Secretary that we ought only to stop pension where we feel that an *error* has been made. I do not feel that in the present case for the reasons above stated.

(Intd.) *W. S.*
10/5/18.

I should scarcely have thought there was any doubt of which to give the man the benefit.

(Intd.) *M. N.*
11/5.

Mr. Sanger,
In view of Dr. Gossage's opinion (twice expressed), I do not think we can say that a "palpable *error*" was committed when this pension was awarded. The pension therefore should not be cancelled until the time arrives (if it ever does) when we can satisfy ourselves that the aggravation has passed away.
Greater care should be exercised in awarding pensions, but cancelling them is a process to be used with extreme caution and only in obvious cases of error. X

(Intd.) *A. G. B.*
14/5/18.

Sir A. G. Boscawen,
The general question is coming to you on 9884. On that paper I represent that we have agreed with the Treasury that doubtful cases of attributability shall be reconsidered upon coming up for renewal just as if they were original cases; and that X. would be a breach of that agreement and would require fresh reference to the Treasury.
It is true that Dr. Gossage considers that in this particular case aggravation should be conceded; but his minutes make it clear that the concession would be based on giving the benefit of the doubt to an extent not permissible. He says that "if the man had been employed in civil life, he would probably have arrived at the same condition."
There is no difference upon the medical point. It is simply a question whether a medical decision that a disability *might* have been aggravated by service, but *probably was not*, justifies giving "the benefit of the doubt" to the man.
I note that Sir M. Nathan—who always wishes to give every chance to any disabled soldier—says of this case "I should scarcely have thought there was any doubt of which to give the man the benefit." That is also my view.

(Signed) *J. A. Flynn.*
27/5/18.

Mr. Kingsford,
To be sent to Chelsea and to be brought before the Advisory Board to-morrow.

(Intd.) *A. G. B.*
29/5/18.

D. of F.,
This case was carefully reviewed by the Advisory Board at their meeting of the 30th May, and it was unanimously decided that there were not sufficient grounds for cancelling the current award.

(Intd.) *W. S.*
1/6.

Mr. Sanger,
I cannot anyhow pass this case without the Minister's personal orders, as in my judgment the record shows that far more than the benefit of reasonable doubt is given; but in putting it before him I should like to have the matter clear. I therefore ask that it may be stated whether the Advisory Board consider that there is sufficient probability in the man's favour to justify an award if the case were being considered *for the first time, bearing in mind* the pledges given to the Treasury on 6155 as to the way in which this should be estimated—*i.e.*, that there should not be a clear balance against the man; or whether they admit —as the Senior Medical Assessor does—a balance against the man, but nevertheless propose to continue the pension because it has already been awarded.

(Intd.) *J. A. F.*
3/6/18.

Case under further consideration of Advisory Board.

(I.)

CERTAIN DOUBTFUL CASES ALLOWED BY APPEALS TRIBUNAL.

An important War Pensions Committee having protested against the decisions given in favour of the men's claims by the Appeals Tribunal in three cases fully investigated by the Committee and pronounced by them to be inadmissible, the cases were investigated by the Finance Department. The Director was unable to find in the records any sufficient evidence even probably establishing the claims, which were raised at considerable intervals after discharge. The Senior Medical Assessor judged that two of the cases were inadmissible, and that the evidence produced in the third was inconclusive.
Upon reference being made to the Tribunal, notes of the considerations influencing them were furnished. It then appeared that in two cases the men had not been seen. In spite of these notes the Controller of the Awards Staff came to the same conclusion as that at which the Senior Medical Assessor had previously arrived, but pointed out the difficulty of reversing awards communicated to the applicants by the President of the Tribunal. The cases will be put before the Minister for decision.
A partial quotation of the somewhat voluminous documents would not be satisfactory, and it is not thought desirable to publish them in detail; but the papers (Ministry file 9433) are, of course, at the service of the Committee.

APPENDIX No. 17.

PAPER handed in by the *Comptroller and Auditor-General*, 18th June, 1918.

AWARDS MADE BY MINISTER OF PENSIONS WHICH DO NOT APPEAR TO BE COVERED BY THE TERMS OF THE ROYAL WARRANT, AND WERE OBJECTED TO BY THE ACCOUNTING OFFICER AND HIS OBJECTION ENDORSED BY THE COMPTROLLER AND AUDITOR-GENERAL.

I.

A military officer while riding in a motor car with other persons, apparently in pursuance of private purposes, and not in execution of military duty, was challenged by sentries and after some altercation was shot by one of them.

His widow received a gratuity of £574 17s. 6d. from the War Office under Army Order 3 of 1916 "Officer dies from other causes."

The case was subsequently brought up for further consideration after the administration of these pensions had been transferred to the Ministry of Pensions and the Minister awarded pension of £75 (subject to adjustment in respect of gratuity issued) at intermediate rate and allowance of £20 per annum for each child under Royal Warrant of 1.8.17—Art. 11 (2) b. "Attributable to Military Service."

The award was objected to by the Comptroller and Auditor-General and referred by him to the Treasury, who were unable to regard death as attributable to Army Service within the meaning of Art. 11 (2) b. of Royal Warrant 1.8.17.

Correspondence attached (Letters 1—4.)

II.

A medical officer died of dysentery while serving in hospital in Malta—apparently contracted by infection in course of military duties—probably result of overwork and lowered vitality.

Pension to Widow originally granted by War Office under Army Order 3 of 1916 at intermediate rate, Widow £75 per annum, three children £20 per annum each. On subsequent review of existing pensions under the Warrant of 1st August, 1917, the Minister awarded £100 per annum to widow and £24 per annum to each child at highest rate under Art. 11 (1) b. of Royal Warrant 1.8.17. "Illness which is certified as directly traceable to fatigue, privation, or exposure incident to active service in the field."

The circumstances of death do not appear to fulfil the condition as to "service in the field." The decision appeared to have been based on the ground that the infection was caught from patients brought to the hospital.

III.

Pension of 19s. 3d. a week (for 70 per cent. disability) raised to 27s. 6d. a week to soldier, under Art. 6 of Royal Warrant of 29.3.17 for period of two years while undergoing course of training as Instructor in handicraft.

The Accounting Officer objected to the award on the grounds that:—

(*a*) Art 6 provided only for grant when training was required "in consequence of disablement."

(*b*) The period of training was in excess of the general rule already laid down by Treasury limiting it to one year.

(*c*) The Treasury had stated that professional training was not a matter for Ministry of Pensions to deal with.

The award was confirmed by the Minister as coming within the power of interpretation conferred on him by Royal Warrant.

The Comptroller and Auditor-General concurred in the view of the Accounting Officer that the award was *ultra vires* and has recently referred the case to the Treasury.

Correspondence attached. [Letter 5].

IV.

Territorial soldier enlisted in 1910. Embodied 5th August, 1914. Discharged 6.9.14. "Not being likely to become an efficient soldier."

The man appealed in August, 1917, being then totally paralysed. Medical Board reported the disability as "not attributable to or aggravated by military service."

The Pensions Appeal Tribunal decided that the man's unfitness was "attributable to or aggravated by military service during the present war."

The Minister at first refused to endorse the Tribunal's decision and awarded, as being the more favourable, dependant's pension of 15/- in respect of each of the man's two sons killed in action.

As, however, only one dependant pension of 15/- a week could be awarded, the Minister reversed his previous ruling, confirmed the Appeal Tribunal's decision and awarded a permanent pension of 27/6 a week.

The Accounting Officer objected on the grounds that the evidence did not justify the finding of attributability.

RESPONSIBILITY OF ACCOUNTING OFFICERS.

[Extract from Epitome, Public Accounts Committee Reports, page 132.]

Accounting Officers will understand that if they are desired by their superior officers to order a payment which under Act of Parliament, Order in Council, Queen's Warrant, Treasury Minute, or otherwise, they believe to be wrong, they must represent their objection, and the reason for it, to such superior officer in writing. If the order is then repeated in writing, they may obey without further responsibility, but if the officer directing the payment is not the supreme chief of the Department they should ask to obtain the authority in writing of such chief before obeying. The responsibility is then transferred to the directing officer, who will be held personally liable. The report of the Public Accounts Committee shows that the action of the Treasury in enforcing such liability will be supported by the Committee and my Lords are anxious that there should be no misunderstanding on this point throughout the Service.

CORRESPONDENCE.

1.

No. 2053/439.

Exchequer and Audit Department.
Victoria Embankment, London, E.C.
20th November, 1917.

Sir,

I am directed by the Comptroller and Auditor-General to request you to draw the attention of the Lords Commissioners of His Majesty's Treasury to the circumstances in which an award of pension has been made by the Minister of Pensions to the widow of Lieutenant . . . . .

From the papers furnished to this Department in support of the award it appears that the deceased officer together with a Naval officer and other persons while riding in a motor-car, not in the execution of military duty, but in pursuance of private purposes, were challenged by sentries, and that after some altercation both officers were shot by one of the sentries.

A gratuity at the maximum rate of 3 years' pay of the deceased officer was granted to the widow under Section 15 of Royal Warrant of 26th November, 1915, but since the issue of the Royal Warrant of 1st August, 1917, she has been awarded an "intermediate" pension of £75 per annum with a further allowance of £20 per annum for each child as from 1st April, 1917, subject to an adjustment in respect of the gratuity already issued (Arts. 11 (2) and 12 (1) of the Royal Warrant of 1st August, 1917). The award of this pension was contrary to the opinion of the Accounting Officer, and it has accordingly been made by the written authority of the Minister of Pensions in accordance with Treasury Minute of 31st October, 1883.

The condition of attributability of death to military service under which pension may be granted does not appear to the Comptroller and Auditor-General to have been fulfilled in this case, and I am to ask that he may be favoured with an expression of the views of their Lordships on the subject.

I am, &c.
(Signed) *W. H. Gallier.*

The Secretary, The Treasury.

2.

T.L. 43226/18.

11/6/1918.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to refer to your letter of the 20th November, 1917 (2053/439), relative to the observations of the Comptroller and Auditor-General on the award of pension and children's allowance to the widow of Lieutenant . . . . . and to forward copies of a letter which they have received from the Ministry of Pensions and of their reply thereto.

I am, &c.,
(Signed) *M. G. Ramsay.*

The Comptroller and Auditor General.

3.

O.A.F/21317.

Ministry of Pensions,
Secretary's Office, Great George Street,
London, S.W. 1.
18th December, 1917.

Sir,

With reference to your letter 39025/17 of the 27th ultimo and the observations of the Comptroller and Auditor-General on the award of pension and children's allowances to the widow of Lieutenant . . . . . I am directed by the Minister of Pensions to state that he does not at all differ from the view that this officer did not meet his death "in the execution of military duty." Maintaining that view, which had previously been held also by the Army Council, he refused on appeal to grant an intermediate pension under Article 13 of the Royal Warrant of the 26th November, 1915 (A.O.3/1916.)

But Article 11 of the Royal Warrant of the 1st August 1917 (A.O. 268/1917) raised to the highest rate the cases of officers dying from injuries sustained through the performance of military duty, and admitted to the intermediate rate cases fulfilling the very much wider term "attributable to military service."

In interpreting that expression the Minister proposes to be guided generally by the interpretation adopted in soldiers' cases as explained to the Lords Commissioners of His Majesty's Treasury in my letter No. 3270 of the 8th June last and accepted generally by them in your reply to that letter. It was then agreed that in special circumstances accidents to soldiers in this country might be regarded as attributable to service, and among other kinds of cases which under this condition have been regarded as admissible are those in which a soldier meets his death accidentally at the hands of a comrade or where, owing to his being a soldier and not a civilian, he was specially exposed to risk.

The case of Lieutenant.....entirely complies with such an interpretation. Had he and his fellow officer not been wearing uniform, it is probable that they would not have been regarded with as much suspicion by the sentries, and they were shot by the sentry who appears to have lost his nerve and with regard to whose action the Coroner's Jury added a rider animadverting strongly on the military authorities. That this censure could not be entirely repudiated seems to have been admitted to some extent by the Army Council who, before the introduction of the Royal Warrant of the 26th November, 1915, awarded Mrs. ..... a sum of £500 as an act of grace by way of compensation, and the Minister has had some difficulty in resisting Mrs. .....'s repeated plea that she ought to be allowed to retain this grant in addition to the pension to which she is now entitled.

With regard to the remark of the Comptroller and Auditor-General that the officers were in pursuance of private purposes, I am to point out that in reference to soldiers Their Lordships have agreed that a man who meets with an accident when returning direct to his station from "walking out," *i.e.*, in pursuance of private purposes, the accident may be regarded as attributable to service. Here again Lieutenant ....'s case is parallel. He had gone out in his spare time for recreation and was returning by a direct route and in a proper manner to his station. He was obliged by the temporary failure of his lights to turn back to Torquay, and was there held up by sentries, who conceived unwarranted suspicions as to his identity. In the dispute which followed the officers' arrest Lieutenant ..... took a very secondary part, and it certainly could not be held that his death was due to his serious negligence or misconduct.

All the circumstances of the case were carefully considered by the Minister before he gave his decision, and he feels no hesitation in maintaining that that decision is covered by reasonable interpretation of Article 11 (2) (b) of the Royal Warrant of the 1st August, and is confident that with the foregoing explanation before them their Lordships will be able to concur in this opinion.

I am, &c.
(Signed) *Matthew Nathan.*
Secretary.

The Secretary, The Treasury, S.W. 1.

4.

Treasury Chambers,
11th June, 1918.

43226/17.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to refer to your letter of the 18th December, 1917 (O.A.F./21317) relative to the observations of the Comptroller and Auditor-General on the award of pension and children's allowances to the widow of Lieutenant .....

My Lords regret that they are unable to concur in Mr. Hodge's opinion that there are in this case special circumstances which make it reasonable to regard the death of Lieutenant ..... as attributable to Army Service within the meaning of Article 11 (2) (b) of the Royal Warrant of the 1st August.

My Lords regret the delay in dealing with this case.

I am, &c.,
(Signed) *Malcolm C. Ramsay.*

The Secretary, Ministry of Pensions.

5.

Exchequer and Audit Department,
30th May, 1918.

2053/290.

Sir,

I am directed by the Comptroller and Auditor-General to state for the information of the Lords Commissioners of His Majesty's Treasury that his attention has been drawn to a case in which a disability pension of 19/3 a week has been increased to 27/6 a week, under Article 6 of the Royal Warrant of 29th March, 1917, for a period of two years, to enable the pensioner, who before the War had been employed by his father as a joiner, to undergo a course of training as an Instructor in Handicraft.

Exception was taken to the award by the Accounting Officer of the Ministry, not only on the ground that it was doubtful whether such an award was within the intention of Article 6, *i.e.*, whether the man required this training in consequence of his disablement, but also that the Ministry had accepted the view expressed by the Treasury in the recent correspondence on the question of the training of disabled soldiers (Treasury Letters 8th December, 1917, No. 38044/17, 26th January, 1918, No. 470/18, and 18th February, 1918, No. 5536/18) (1) that as a general rule one year should be the limit of the period for training, and (2) that professional training was not a matter for the Ministry of Pensions. The award was, however, personally confirmed by the Minister as coming within the power of interpretation conferred upon him by the Royal Warrant.

The Comptroller and Auditor-General is in complete accord with the views expressed by the Accounting Officer that the Minister's power of interpretation is rather between the State and the individual than between the Minister and the Treasury, and that the question as to which Department should provide for a new service, *i.e.*, professional training, was essentially a matter for Treasury decision.

In these circumstances the Comptroller and Auditor-General would be glad to learn whether this view of the position is in correspondence with that held by Their Lordships and whether the award in question is not therefore inadmissible.

I am, &c.,
(Signed) *W. H. Gallier.*

The Secretary, The Treasury.

6.

Treasury Chambers,
10th June, 1918.

21493/18.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to inform you that Their Lordships' attention has been drawn by the Comptroller and Auditor-General to a case in which a disability pension of 19s. 3d. a week has been increased to 27s. 6d. a week, under Article 6 of the Royal Warrant of 29th March, 1917, for a period of two years, to enable the pensioner, who before the War had been employed by his father as a joiner, to undergo a course of training as an Instructor in Handicraft.

My Lords understand that this case has been the subject of communications between your Department and the Comptroller and Auditor-General, and they will be glad to be favoured with Mr. Hodge's observations thereon.

I am, &c.,
(Signed) *Robert Chalmers.*

The Secretary, Ministry of Pensions.

7.

Ministry of Pensions,
20th June, 1918.

T.E. Gen. 589.

Sir,

I am directed by the Minister of Pensions to refer to Sir Robert Chalmers' letter 21493 dated 10th June, 1918, with regard to a case in which a disability pension of 19s. 3d. a week had been increased to 27s. 6d. a week under Article 6 of the Royal Warrant of the 29th March, 1917, for a period of two years to enable the pensioner, who before the war had been employed by his father as a joiner, to undergo a course of training as an instructor in Handicraft.

2. The case in question arose in an offer of the Waterloo-with-Seaforth Education Committee to train a discharged disabled soldier with fairly good education as a teacher of Handicraft. No fees were asked; the course was to be for two years; the man was to work and study under the supervision of a regular teacher of Handicraft; and the question of wages (if any) to be paid to him during training was to be considered as his competency increased.

The Lancaster War Pensions Committee, in answer to this offer, put forward the name of Thomas Knowles, late a Gunner in the R.F.A. He had formerly been a joiner but had lost three fingers of his left hand and his left leg had been stiffened by a wound, these injuries preventing him from resuming his previous occupation. He was accepted by the Waterloo-with-Seaforth Education Committee and was to start training on the 21st January, 1918.

3. Sanction of the Ministry for the man to be given training allowances was applied for. The question of the Ministry's powers in this matter was then under discussion, and, pending their reply, the man's training was continued, and he was reported to be making excellent progress.

4. The case was referred to the Director of Finance who considered (1) that the man's disablement did not appear to require the proposed course of training in that he did not seem to be more fitted for the employment it led up to than for many other occupations, and (2) that the training was to last for more than the year which it had been agreed with the Treasury was only to be exceeded in exceptional circumstances, and (3) that the training was professional, which the Treasury had ruled was outside the purview of the Ministry.

5. These views were not acceptable to the Minister. The first appeared to be irrelevant; as regards the second the case was exceptional in that exceptionally favourable conditions were offered for adequately training the man at a comparatively small cost for employment in which he had reasonable prospect of securing a permanent livelihood at a fair rate of wages when it was concluded; as regards the training being professional, it was doubtful whether it could properly be put under the ban considered by the Director of Finance to have been created by the reference to a professional education in the last paragraph of Sir Robert Chalmers' letter 38044 dated 8th December, 1917.

6. As regards the cost of training, I am to call attention to the facts that in this case there was a high initial pension rate to be deducted from the highest degree of disablement allowance, that no wife or children's allowances were payable and that no fees were to be charged. There were grounds for believing, though this was not before the Director of Finance at the time he gave his opinion, that the man would be paid a salary as soon as it was considered he had a wage-earning capacity as a teacher of handicraft; in that event, his allowance from the Ministry of Pensions would be correspondingly reduced.

7. Representations were made by the Director of Finance to the Minister and Parliamentary Secretary in person that Treasury sanction should be asked to cover any ruling to the effect that the training should continue. The Minister, however, adhered to his view that the matter was one for his decision under the powers conferred upon him and the training was accordingly continued.

8. In the foregoing circumstances the Minister trusts that Their Lordships will inform the Comptroller and Auditor-General, with whom Mr. Hodge does not trace having had any communication in the matter, that his decision that Mr. Knowles should be trained as a teacher in handicraft was entirely admissible.

9. It is observed from the final paragraph of the Comptroller and Auditor-General's letter 2053/290 of the 30th May, 1918, of which a copy was forwarded with Treasury letter under reply that the Minister's decision in this case is termed an award. The Minister, however, looks upon a decision as to whether a man should or should not receive training at the cost of the State as a very different matter from an award of pension. However right and proper are such awards in payment of the State's just debts to the men who have served the Country at the cost of life or limb, they bring the Country no direct return. It is otherwise with a grant of training facilities. Where these are judiciously provided, an asset in the shape of productive capacity is created, and this, apart from the benefit it confers on the man and on the Country, must ultimately inure to the benefit of the Exchequer. The Minister looks upon this part of his functions as of the greatest importance, and only regrets that the conditions of the time, in which high wages are given for unskilled work which must come to an end with the end of the war, lead disabled men to forego the permanent advantage which would be derived from increased earning capacity for the momentary benefit of drawing large wages for war work. The result is that in these years of the war, a large number of disabled men are losing the opportunity of establishing themselves in skilled work likely to offer permanent employment. When the war ceases, it will leave these men unfavourably placed owing to their disablement in the competition for unskilled work that will swell the number of the unemployed and increase the measure of discontent in the Country.

10. In the circumstances, the Minister feels most strongly that he should have the support of the Treasury in interpreting his powers to train disabled men in no narrow spirit. The correspondence with Local Authorities involved in such cases as the present one in which he has to appear as finding reasons against rather than for the useful training of a disabled man discourages those Authorities and tends again to bring training work to a standstill with results that the Minister cannot but consider as wholly unfortunate to the Country at large.

11. While on the general question, the Minister would specially refer to the Treasury embargo on professional education which the Director of Finance considered had special application to the case which is the subject of this letter, and on account of which he desired that the case should be referred to the Treasury. The Minister is strongly of opinion that there should be no such embargo. If applied to officers, it practically nullifies the provisions of the Warrant that allows highest degree of disablement allowance to be given when an officer is undergoing training which, in the Minister's opinion, would benefit him. If not applied to officers there is no justification for its application to men who have been in a similar position to officers before they were called up for military service and by reason of that service are prevented from following their pre-war occupation. In such cases the present limitation of training to trade and commercial instruction means that many men with brains and education can either get training not suited to them or none at all.

12. The Minister considers that he should be given wide latitude in sanctioning training, provided that he adheres to the principles that training should only be given in cases where by reason of a man's disablement he is prevented from following his previous employment, and that the period of the payment of any disablement allowance should not exceed two years, and of a full disablement allowance should not exceed one year.

I am, &c.,
(Signed) *Matthew Nathan*,
Secretary.

The Secretary to the Treasury.

APPENDIX No. 18.

PAPERS handed in by Sir *Charles Harris*, K.C.B., 18th June, 1918

STATEMENT SHOWING NORMAL SCALE OF RATIONS ISSUABLE TO TROOPS AT HOME, with Reductions effected from beginning of War to present date (June, 1918).

Article. (1)	First Scale on outbreak of War. (2)	From 22nd August, 1914. (3)	From 21st September, 1914. (4)	From 22nd May, 1916. (5)	From 4th December, 1915. (6)	From 13th February, 1916. (7)	From 4th November, 1916. (8)	From 1st March, 1917. (9)	From 28th Jan., 1918 (Sedentary formations). (10)	From 4th February, 1918. (11)	From 1st May, 1918. (12)
Bread	1¼ lbs.	1¼ lbs.	1¼ lbs.	1 lb.	1 lb.	1 lb.	1 lb.	14 ozs.	14 oz.	14 ozs.	14 ozs.
Meat	1¼ lbs.	1 lb.	1 lb.	1 lb.	1 lb.	¾ lb.	¾ lb.	¾ lb.	8 ozs.	10 ozs.	8 ozs.
Tea	⅝ oz.	⅝ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.
Sugar	3 ozs.	3 ozs.	2 ozs.	2 ozs.	2 ozs.	2 ozs.	2 ozs.	2 oz.	1 oz.	1½ ozs.	1½ ozs.
Salt	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.
Pepper ...	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	—	—	—	—	—		
Mustard ...	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.							
Jam	4 ozs.	4 ozs.	1 oz.	—	—	—	—	—	—	—	—
Bacon	4 ozs.	4 ozs.	2 ozs.	2 ozs.	2 ozs.	2 ozs.	2 ozs.	2 ozs.	1 oz.	2 ozs.	2 ozs.
Cheese	3 ozs.	3 ozs.	1 oz.	—	—	—	—	—	—	—	—
Fresh Vegetables	8 ozs.	8 ozs.	—	—	—	—	—	—	—	—	—
Cash Allowance	Nil.	Nil.	4d.	5½d.	5½d.	5½d.	5½d.	5½d.	5½d.	5½d.	6½d.

SECTION 18.—STATEMENT SHOWING SCALE OF RATIONS ISSUABLE TO BRITISH AND DOMINION TROOPS IN FRANCE, and giving Reductions effected from beginning of War to present date.

DAILY SCALE UNLESS OTHERWISE STATED.

Article. (1)	Field Ration (full scale) for fighting troops at Front. First scale drawn up. (2)	Scale from 29th October, 1915. (3)	Scale from 4th April, 1916. (4)	Scale from 20th January, 1917. (5)	Scale from about 1st July, 1917. (6)	Scale from 26th January, 1918. (7)	Total reduction per man per day. (8)	Rations for troops on L. of C. Scale from 17th April, 1917 (First scale). (9)	Scale from about 1st July, 1917. (10)	Total reduction per man per day. (11)	Remarks. (12)
Meat (Fresh or Frozen) or	1½ lb.	1 lb.	1 lb.	1 lb.	1 lb.	1 lb.	4 oz.	12 oz.	12 oz.	—	
Meat (Preserved).	1 lb. (nom.)	¾ lb. (nom.)	¾ lb. (nom.)	¾ lb. (nom.)	9 oz.	9 oz.	3 oz.	—	6½ oz.	—	
Bread ... or	1½ lb.	1½ lb.	1½ lb.	1 lb.	1 lb.	1 lb.	4 oz.	14 oz.	14 oz.	—	
Biscuit ...	¾ lb.	¾ lb.	¾ lb.	¾ lb.	10 oz.	10 oz.	2 oz.	—	8¾ oz.	—	
Bacon ...	4 oz.	4 oz.	4 oz.	4 oz.	4 oz.	4 oz.	—	3 oz.	3 oz.	—	
Cheese ...	3 oz.	3 oz.	3 oz.	2 oz.	2 oz.	2 oz.	1 oz.	2 oz.	2 oz.	—	
Fresh Vegetables. or	8 oz.	8 oz.	8 oz.	8 oz.	8 oz.	8 oz.	—	8 oz.	8 oz.	—	
Dried Vegetables.	2 oz.	2 oz.	2 oz.	2 oz.	2 oz.	2 oz.	—	2 oz.	2 oz.	—	
Tea	⅝ oz.	⅝ oz.	⅝ oz.	⅝ oz.	⅝ oz.	½ oz.	⅛ oz.	½ oz.	½ oz.	—	
Jam ...	4 oz.	4 oz.	3 oz.	3 oz.	3 oz.	3 oz.	1 oz.	3 oz.	3 oz.	—	

DAILY SCALE—Continued.

Article. (1)	Field Ration (full scale) for fighting troops at Front. First scale drawn up. (2)	Scale from 29th October, 1915. (3)	Scale from 4th April, 1916. (4)	Scale from 20th January, 1917. (5)	Scale from about 1st July, 1917. (6)	Scale from 26th January, 1918. (7)	Total reduction per man per day. (8)	Rations for troops on L. of C. Scale from 17th April, 1917 (First scale). (9)	Scale from about 1st July, 1917. (10)	Total reduction per man per day. (11)	Remarks. (12)
Butter ...	Issued in the form of an "extra" until about 1.7.17.				2 oz. (thrice weekly).	2 oz.	—	—	—	—	
Margarine ...	—	—	—	—	—	—	—	1 oz.	1 oz.	—	
Sugar ...	3 oz.	3 oz.	3 oz.	3 oz.	φ 3 oz.	φ 3 oz.	φ ¼ oz.	2 oz.	φ 2 oz.	φ ½ oz.	φ The issue of sweetened condensed milk taken into consideration with allowance of sugar. When this kind of condensed milk is issued the sugar ration is reduced by ½ oz.
Oatmeal ... (thrice weekly).	Issued in the form of an "extra" until about 1.7.17.				2 oz.	2 oz.	—	—	—	—	
Rice	do.	—	do.	—	1 oz.	1 oz.	—	2 oz.	2 oz.	—	
Salt	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	½ oz.	—	½ oz.	½ oz.	—	
Mustard ...	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	
Pepper ...	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	⅛ oz.	
Milk (Condensed).	⅛ tin.	⅛ tin	⅛ tin	1 oz.	1 oz.	1 oz.	Slight increase of about ¼ oz.	1 oz.	1 oz.	—	
Pickles ... (weekly).	1 oz.	1 oz.	1 oz.	1 oz.	1 oz.	1 oz.	—	1 oz.	1 oz.	—	

APPENDIX No. 19.

PAPERS handed in by the *Chairman*, 27th June, 1918.

Royal Commission on Wheat Supplies.

21st June, 1918.

Sir,

I am directed by the Royal Commission on Wheat Supplies to transmit herewith copy of correspondence which has taken place between the Royal Commission and the Comptroller and Auditor-General with regard to certain questions raised in connection with paragraphs 37 and 38 of the Report on the Vote of Credit Appropriation Account, 1916–1917. I am to call special attention to paragraph 7 of the letter of the 12th inst., from the Comptroller and Auditor-General, and to request that the Royal Commission may be afforded an opportunity of stating their case to the Committee of Public Accounts as suggested therein.

I am, &c.,
(Signed) *A. Dunbar*.

The Secretary, Committee of Public Accounts, House of Commons.

Royal Commission on Wheat Supplies.

25th May, 1918.

Sir,

I am directed by the Royal Commission on Wheat Supplies to communicate with you with reference to the Report on the Vote of Credit Appropriation Account 1916–17, dated 9th April. Paragraph 37 of that Report quotes paragraph 47 of the First Report from the Select Committee on National Expenditure, October, 1917 (H.C.151/17), as stating that a probable loss of £2,000,000 would result from the large wheat reserves being stored in unsuitable buildings, and from certain grades of wheat being unfit for long keeping.

The Royal Commission venture to suggest that paragraph 47 of this Report cannot bear the interpretation placed upon it. When carefully read, it will be seen that the paragraph states that the estimate of £2,000,000 loss is not wholly in respect of storage in temporary buildings or storage of low-grade wheats, but is the estimate of the loss "under this head," and the phrase "under this head" refers to the whole reserve of wheat.

The Royal Commission agree that paragraph 47 was not very happily phrased, but they venture to think that, when read as a whole, its meaning is quite clear. The Report was based on evidence given by the Vice-Chairman of the Royal Commission on Wheat Supplies. His evidence was to the effect that the original arrangements made by the Royal Commission and the prices fixed by them for sales secured that the country's imported bread supply would be provided without cost to the State; that great care had been necessary to achieve this result owing to the facts that the Cabinet had given instructions for large reserves to be held; that these reserves had often to be stored in unsuitable buildings, and that, owing to a scarcity in the world supply, the only wheat available for import had, at times, been of low-grade quality, but that every care was taken to use up, in the first instance, those portions of the stored wheat which were not likely to keep, and any loss incurred from either of those causes was negligible in amount; that the decision of the Cabinet to subsidise bread had upset this policy, and would probably entail a loss of £40,000,000 a year on the over-head trade, and a loss estimated at £2,000,000 on the reserve wheat alone. Further, that apart from the decision to subsidise the loaf, the reserve wheat would have yielded a handsome profit to the State, owing to the rise in prices subsequent to the date when the bulk of it was acquired.

The Royal Commission on Wheat Supplies would desire to have an opportunity of substantiating the statements contained in this letter by reference to their books and records, if confirmation is required, and they have no doubt that the Select Committee on National Expenditure will confirm the interpretation they have placed on paragraph 37 of the Report on the Vote of Credit Appropriation Account should have

contained misleading information, and they rely with confidence on a corrective report being issued at an early date.

The Royal Commission desire also to refer to the wording of paragraph 38 of the Report, which appears to suggest that the Royal Commission had not taken proper steps to safeguard stocks in Australia and had withheld information. The Royal Commission must also regard this paragraph as misleading. Your Representatives, at their Local Audit, were handed all the files of the Royal Commission relating to this matter, and were tendered all other information in the Commission's possession. A study of the files would have shown that, as far back as July last, the Treasury sanctioned large expenditure on additional storage accommodation in Australia; that arrangements had been made, as far as possible, to deal with Wheat which seemed unlikely to keep well by grinding it into flour which would keep well; that the Commission despatched representatives to Australia to arrive in that country in time to make arrangements to take over the stocks from the date they were held at the risk of the Royal Commission: and, that arrangements had been made for mechanically treating wheat which could not be dealt with by grinding into flour.

I am to ask that a corrected Report should also be made on this point.

The Royal Commission are sending copies of this letter to the Treasury, and the Committee on National Expenditure.

I am, &c.,

The Comptroller and Auditor-General. (Signed) *A. Dunbar.*

Royal Commission on Wheat Supplies.

Sir, 25th May, 1918.

I am directed by the Royal Commission on Wheat Supplies, to refer to the Third Report of the Committee on National Expenditure. The Royal Commission regret that reference should have been made in the Report to the Licence Duty charged on flour used for such purpose as sizing and wholesale manufacture of biscuits, when no questions on this subject were put to the Vice-Chairman when he gave evidence before the Committee. As a result, paragraph 7 of the Report is inaccurate.

The Licence Duty was originally fixed at 18s. per sack, not £1, as stated in the Report. After careful enquiry and calculation, it was found that this charge was insufficient to recoup the state subsidy given in respect of the flour so used, and accordingly, as far back as the 20th March last, the Licence Duty was doubled. Since that date, the charge has been 36s. a sack—a payment which is more than sufficient to recoup the subsidy.

With reference to the earlier paragraphs of the Report, the Select Committee will remember that the Vice-Chairman stated, in his evidence, that an investigation had, some time previously, been undertaken by the Bread Committee of the Royal Commission as to the possibility of raising the selling price of flour. This investigation is nearing completion. In the meanwhile, it may be said that returns from fifty-two Co-operative Bakeries in different parts of the country show that, at the present prices of bread and flour the average margin for profit amounts to 3s. 6½d. per sack. These figures have yet to be tested, but they come from a reliable source and relate to Bakeries whose costs are probably lower than the average.

If, on investigation, these returns should prove to be correct, it would seem certain that a material increase in the price of flour would jeopardise the bread supply of the nation, unless a corresponding increase was allowed in the price of bread.

I am to enclose for your information copy of a letter which the Royal Commission have to-day addressed to the Comptroller and Auditor-General. A copy of this letter is being sent to the Treasury.

I am, &c.,

The Secretary, Select Committee on National Expenditure. (Signed) *A. Dunbar.*

Select Committee on National Expenditure, Sub-Committee No. 4,

Sir, 1, London, Whitehall, S.W. 1, 30th May, 1918.

Mr. Leif Jones asks me to express his thanks to you for Mr. Dunbar's letter of the 25th inst., on the subject of the Third Report of the Select Committee on National Expenditure, and to say that he hopes that it will be possible, in a further Report from the Select Committee, to include a revised statement as to the licence duty charged on flour used for certain purposes.

I am to add, with reference to the copy letter of the 25th inst. to the Comptroller and Auditor-General enclosed with the letter under reply, that Mr. Lief Jones concurs in the interpretation placed by the Royal Commission on the terms of paragraph 47 of the First Report of the Select Committee (1917) on National Expenditure (H.C.R.151 of 1917).

I am, &c.,

The Vice-Chairman, Royal Commission on Wheat Supplies. (Signed) *T. F. Husband.*

Royal Commission on Wheat Supplies.

Sir, 7th June, 1918.

I am directed by the Royal Commission on Wheat Supplies to advert to their letter of the 25th May on the subject of the references to the operations of the Royal Commission contained in the Report on the Vote of Credit Appropriation Account, 1916–1917, and I am to transmit herewith a copy of a letter dated the 30th May (No. 4), from the Select Committee on National Expenditure.

In view of the terms of the second paragraph of that letter, the Royal Commission have no doubt that a correction of paragraph 37 of the Report on the Vote of Credit Appropriation Account will be issued forthwith.

I am to add that the Royal Commission will be glad of an early reply to this communication.

I am, &c.,

The Comptroller and Auditor-General. (Signed) *A. Dunbar.*

9045/310. Exchequer and Audit Department, Victoria Embankment, E.C. 4.

Sir, 12th June, 1918.

1. I am directed by the Comptroller and Auditor-General to acknowledge the receipt of Mr. Dunbar's letters of the 25th ultimo and of the 7th instant, the latter enclosing a copy of a letter of the 30th ultimo from the Secretary of Sub-Committee No. 4 of the National Expenditure Committee, copies

of which have been sent to the Select Committee on National Expenditure and to the Treasury, relative to certain questions raised in connection with paragraphs 37 and 38 of the Report on the Vote of Credit Appropriation Account 1916–17.

2. The statements made by the Select Committee on National Expenditure in paragraph 48 of their First Report, viz., that the three main sources of loss to the Commission were:—

(1) The purchase of a vast quantity of Australian Wheat for which means of export have not been available;

(2) The increase of Wheat reserve;

(3) The selling of bread below cost price;

bear no evidence that the loss under (2) was in any way related to the loss under (3) and from the differentiation which is made in the sources of loss all the evidence of the words of the paragraph referred to is that the loss under (2) was additional to and not a part of the loss under (3).

3. Moreover, the Committee state in the first three sentences of paragraph 47 that in respect of the wheat reserve heavy financial loss seems under present conditions to be inevitable: that the storage accommodation was often unsuitable, and some of the wheat was of grades unfit for long keeping; and that the estimate given to the Sub-Committee of the probable loss under this head on the year's working is £2,000,000. The only "present conditions" mentioned in the sentences leading up to this figure are the unsuitable storage and the unfitness of the wheat for long keeping, while the bread subsidy referred to in the last sentence of paragraph 47 was, especially in view of the terms of paragraph 48, regarded as an additional source of loss and not as in any way explaining the loss referred to in the third sentence.

4. The Comptroller and Auditor-General understands from a recent interview with the Chairman of the Parliamentary Sub-Committee who heard the evidence on this question that the loss on the wheat reserve, which was estimated at £2,000,000, was, in fact, due to the storage of the increased wheat reserve. This loss would not have been eliminated by its transfer to the taxpayers *qua* consumers, and the Comptroller and Auditor-General considers therefore that the selling of bread below cost price, although preventing that method of recovery cannot be held to be the cause of the loss.

5. In connection with this matter, however, the Comptroller and Auditor General gathers from the interview referred to that a further and considered reply will shortly be sent to the Royal Commission on Wheat Supplies by the Chairman dealing with the points at issue.

6. So far as paragraph 38 of his Report is concerned, I am to point out that the matters dealt with in that paragraph related to the questions raised in paragraph 6 of the letter from this Department of the 22nd March last.

It was not in any way intended to suggest that the Committee had not taken proper steps to safeguard stocks or that they had withheld information, but as the Australian authorities were presumably responsible under their guarantee in respect of deterioration occurring up to 31st December, 1917, that inquiry had been made as to the condition of the stocks in store in Australia and whether any recovery had been effected in respect of ascertained deterioration as at 31st December, 1917. In this connection it will be noticed that the inquiries in question are described as having been only recently made.

7. In regard to the request of the Commission that the Comptroller and Auditor-General should issue a corrected Report, I am to state that he is not prepared to adopt this course. The Vote of Credit Report, which has been printed by Order of the House of Commons, will be considered by the Committee of Public Accounts at an early date, when the representative of your Commission will have an opportunity of making any further explanations that may be thought necessary, and that Committee can, if they think fit, deal with the matter in their Report.

I am, &c.,

The Secretary, Royal Commission on Wheat Supplies. (Signed) *P. A. N. Nicholls.*

Select Committee on National Expenditure, Sub-Committee No. 4,

Sir, 20th June, 1918.

With further reference to your letter of the 25th ult. and my reply of the 30th ult. I fear after careful consideration of all the documents available, including Sir John Beale's letter (J.F.B./G.E.) of the 1st inst., that some misconception still prevails as to the meaning of paragraphs 47 and 48 of the first Report of the Select Committee (1917) on National Expenditure. I therefore think it desirable to explain more fully and exactly the view of the Sub-Committee on the loss incurred through the wheat reserve. From the evidence given before the Sub-Committee we reached the conclusion that there would be a loss upon the wheat reserve, considered by itself, of approximately £2,000,000, and this was a round figure as we had no sufficient data for an exact estimate. This loss, as we understood, arose under three heads:—(1) General causes (loss between buying and selling prices, cost of handling and storage, accidents, etc.); (2) storing in temporary and often unsuitable buildings; and (3) the storing of low grade wheat unfit for long keeping. These three causes accounted for the loss of the £2,000,000 by the Commission.

2. In your letter of the 25th May addressed to the Comptroller and Auditor General you suggest that the phrase "under this head," in paragraph 47 of the Select Committee's report, refers to the whole reserve of wheat. To this suggestion we agreed in our letter of the 30th May, and we adhere to this view subject to the following comments:—

(a) A comparison of the terms of paragraph 37 of the Comptroller and Auditor-General's Report of 8th April last with the terms of paragraph 47 of the Report of the Select Committee suggests that the only substantial point of difference between the two paragraphs is that the Comptroller and Auditor-General makes no allowance for the loss under the first head mentioned above, and appears to attribute the whole wastage to causes (2) and (3). He then correctly interprets the Select Committee's Report in stating in the same paragraph that the probable loss "under this head" (*i.e.*, in respect of the wheat reserve) is £2,000,000.

(b) We have no record of the Vice-Chairman of the Commission having stated in evidence before us that the losses incurred from causes (2) and (3) above were "negligible in amount." That such amounts were negligible is not the opinion formed by the Sub-Committee; we think the loss must have been considerable.

(c) Your letter to the Comptroller also states that "apart from the decision to subsidise the loaf the reserve wheat would have yielded a handsome profit to the State owing to the rise in prices subsequent

to the date when the bulk of it was acquired." In this sentence we interpret the phrase "reserve wheat" as meaning not the wheat at home, but the whole stock of wheat held by the Commission in various parts of the world. The Sub-Committee concur in the view that had the Commission been able to sell all the stock at prices at which they were selling wheat they would have realized on the whole of their operations a profit of about £3,000,000, which would have more than wiped out the loss on the wheat reserve; but there should be no misconception on the point. The loss on the wheat reserve was a loss not only in money but also in foodstuffs; and if no money loss were shown by the Commission it would only have meant that the consumers of wheat, through the prices charged to them, would have repaid the loss to the Commission. The second point, therefore, on which we wish to avoid all ambiguity is that the loss of £2,000,000 having been incurred on the wheat reserve the Commission, if left to itself to fix its own prices, might have made good this loss out of the prices charged to the consumer.

3. The next stage in the proceedings was that the Wheat Commission were not allowed to carry out their policy of selling to the consumer at their own price the wheat they had in hand, owing to the decision of the War Cabinet that the Commission were to sell wheat at such a price as would allow the public to purchase a 4lb. loaf at the uniform price of 9d. This decision of the War Cabinet prevented the Wheat Commission from carrying out their policy of supplying this country with grain without cost to the Exchequer, and compelled them to show a loss, under the Bread Subsidy, of at least £40,000,000.

4. It is only by bearing the sequence of all these operations carefully in mind that the position can be understood, and we desire to point out that in paragraph 2 of Part II. of the Memorandum of 31st May addressed to the Food Controller the statement is so condensed as to be positively misleading. It is there stated that the Commission would "incur a loss on the reserve of wheat of £2,000,000 owing to the decision of the Cabinet that bread should be sold at a subsidised price." This can be understood by anyone who has carefully followed the stages of the proceedings, but it is liable to mislead the reader not thus qualified into thinking that it was the Government subsidy that led to the loss on the wheat reserve. As shown in this letter, the loss on the wheat reserve was incurred before the Bread Subsidy was thought of, and all that the decision of the War Cabinet did was to prevent the Wheat Commission from recouping out of the price charged to the consumer the loss incurred on the wheat reserve.

5. The Sub-Committee trust that the position will be made quite clear in the Trading Account of the Commission as at 31st August last, which they understand from paragraph 40 of the Comptroller and Auditor-General's Report is now in course of preparation.

I am, &c.,
(Signed) *Leif Jones.*

The Secretary, Royal Commission on Wheat Supplies.

Royal Commission on Wheat Supplies.

21st June, 1918.

Sir,

I am directed by the Royal Commission to acknowledge receipt of your letter of the 12th inst., No. 9045/310, relative to the questions raised by the Commission in connection with your report on the Vote of Credit Appropriation Account, 1916/1917, and to inform you that the Royal Commission will accept your suggestion that they should communicate with the Committee of Public Accounts.

I am, &c.,
(Signed) *A. Dunbar.*

The Comptroller and Auditor-General.

APPENDIX No. 20.

PAPER handed in by Mr. *G. L. Barstow*, C.B., 27th June, 1918.

24450/18.

Treasury Chambers, 26th June, 1918.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury your letter of the 20th instant (T.E./Gen./589), respecting the case of T. Knowles, a pensioner, which formed the subject of the Comptroller and Auditor-General's letter of the 30th ultimo.

My Lords must in the first place point out that in their experience it is extremely rare for a Minister to override, without reference to the Treasury, the written protest of his Accounting Officer to the effect that the concurrence of the Treasury is necessary to action involving the expenditure of public funds. Without questioning that such action is within the power of the head of a Department, they venture to question the expediency of such a course save in circumstances wholly exceptional.

The Accounting Officer of any department is a high officer who has a serious responsibility to Parliament for the due expenditure of public money. He is invariably selected by reasons of qualities of sound judgment and financial training and experience, and his protest ought to carry great weight with the Minister. In effect his protest amounts to a claim that funds which Parliament has provided are being improperly disbursed, and that the Treasury, as being in a special sense charged by Parliament with responsibility for protecting the interests of Parliament and of the taxpayer, should be first consulted. To overrule such a protest is to assert the right of the Crown, *i.e.*, of the executive Government, as against that of Parliament, and My Lords feel certain that the Public Accounts Committee and the House of Commons will scrutinize most jealously any such action.

When a Minister, finding that his Chief Financial Adviser differs on a point of principle from him, decides to consult the Treasury, in the great majority of cases a settlement in one or other sense is reached. The Minister may, of course find that the Treasury does not agree with his own views. But such disagreement is not of itself final; should the Minister attach sufficient importance to the principle involved, the case can be taken to the Cabinet, whose decision represents the final authority of His Majesty's Government. In their Lordships' view this is the only constitutional way of settling differences between departments, and they see much objection to the resort to the power of the Minister to overrule his Accounting Officer without first consulting this Board. Such action necessarily leads to the Comptroller and Auditor-General raising a question on the audit of the account, and thus brings the action by the Minister to the direct notice of Parliament through the Public Accounts Committee. My Lords deprecate that Committee becoming the arena for unnecessary inter-departmental controversy.

Turning to the case itself, my Lords do not follow the *argument in* paragraph 9 of your letter. The decision in the case, whether it be termed an award or not, involved the expenditure of public money. The argument that training creates a national asset of productive capacity certainly does not differentiate the case in principle.

My Lords are fully aware of the value of training to the country's productive capacity. But the arguments as to its value apply equally to the civil as to the *military* population and training generally is quite clearly a matter for the Education Departments and has to be limited by financial and other practical considerations. The training which the Minister of Pensions is empowered to provide must as clearly be limited to cases aiming at the restoration to earning capacity of men who have been disabled by war injuries and by reason of *those* injuries have been rendered unable to follow their previous calling. The very value which admittedly attaches to training creates a danger that these limits will be disregarded and that zealous officers of the Ministry will be tempted to extend the advantages of training to persons who have not been really disabled by war injuries, but who may be expected to benefit pecuniarily by training; or to give the advantages of training for the liberal professions involving extended courses, taking several years to complete.

My Lords feel that there can be no question of the expediency of submitting such cases to financial scrutiny, with a view to seeing whether they fall within what my Lords can only consider the exceedingly liberal general terms agreed with the Minister. They would have thought that the Minister would have been only too anxious scrupulously to observe the understanding between the Treasury and Ministry as set forth in the correspondence, and to consult them on any case pointed out to him as doubtful. Had that course been followed in the case of Knowles, my Lords have little doubt that a satisfactory solution could have been reached departmentally.

In the concluding paragraph of his letter the Minister invites their Lordships to agree to a change in the practice with regard (a) to professional training, and (b) to the period of two years. My Lords will deal with this in a subsequent letter.

I am, &c.,
(Signed) *T. L. Heath.*

The Secretary, Ministry of Pensions.

APPENDIX No. 21.

PAPERS handed in by the *Comptroller and Auditor General*, 2nd July, 1918.

6204/102.

Exchequer and Audit Department,
15th February, 1918.

Sir,

I am directed by the Comptroller and Auditor General to state for the information of the Minister of Munitions that his attention has been drawn to the losses which have occurred on the working of the Canteens attached to National Factories.

In delegating the management of the Canteens originally to the Central Liquor Control Board, the Ministry contemplates that (1) the capital cost of the buildings, establishment and equipment; (2) the current cost of maintaining the buildings; (3) the current cost of lighting and heating the premises; and (4) the cost of cleaning, if this could be done by the existing factory staff, should be defrayed by the Ministry, all other expenses being borne by the Canteen, which was to be self-supporting.

In the course of a test examination of the Auditors' reports on the Canteen Accounts to the 31st March, 1917, it was observed that in a number of cases there had been a continuous loss on working, more particularly in the case of Leeds I., £17,279; Leeds II., £7,352; Templeborough, £4,375; and Georgetown, £5,820, and these losses have been temporarily met by advances of money from the balances of the Factories with which they are connected. Moreover, it would appear that the losses will be more numerous and more extensive when the Canteen Accounts have been revised in accordance with the principles originally formulated by the Ministry and elaborated later in agreement with the Central Liquor Control Board.

I am to inquire whether the Treasury was consulted as to the general arrangements for financing Canteen expenditure, and the principles on which they were to be worked.

In the reports on the Leeds Account it was noticed that the Office staff of the factory is being supplied with meals at 3d. per head, while the Canteen charge is 1s. per head, the balance being paid to the Canteens by the Factory; also that all members of the Staff of the Factory or Canteen resident at Barnbow are provided with meals free of charge. Similarly at Chilwell the employees are supplied with breakfast and dinner at the rate of 10d. per diem per head, the balance of the cost of these meals, 1s. 6d. or 1s. 8d. a day (1s. 3d. since December, 1916), being charged to the Factory.

I am to request that it may be stated whether the financial authorities of the Ministry approved the payments from Factory funds in these cases, and, if so, whether such approval was given in relation to the salaries and wages of the employees and to the standard of wages prevailing in the surrounding district.

Certain Canteens, it appears, are being run by outside agencies (Y.M.C.A., Church Army, &c.), and Agreements were arranged between the Agents, the Managers of the Factories and the Central Liquor Control Board, which varied in character, and in some cases apparently provided for the cost of fuel for cooking and the cost of cleaning being charged to Factory Accounts. The Office of Works appear also to have provided these Agency Canteens with equipment, the cost of which has not yet been taken up by the Canteens concerned, *e.g.*, National Shell Factory, . . ., Agent, Mrs. . . .

I am directed to inquire whether the Agreements with outside Agencies have been reviewed so as to ensure that no charges be made on Factory Accounts other than those in relation to first equipment and maintenance of buildings, &c.

The Comptroller and Auditor General also observes that, owing, no doubt, to the difference of opinion which developed between the Central Liquor Control Board and the Ministry, the control over administration of the individual Canteens in regard to system of purchase of supplies, &c., does not seem to have been

satisfactory, the local authorities being allowed to make their own arrangements, with the apparent result that in some cases large supplies were obtained at retail price.

I am to ask whether any action has been taken to introduce a system of contract for supplies wherever practicable.

I am, &c.,
F. N. Dixon.

The Secretary,
Ministry of Munitions.

M.F./E. & A./454.

Ministry of Munitions of War,
Whitehall Place,
London, S.W. 1.
23rd May, 1918.

Sir,

I am directed by the Minister to state that most careful consideration has been given to the questions raised by the letter of the Comptroller and Auditor-General, 6204–102, of the 15th February, and to beg that you will excuse the delay that has occurred in sending this reply, a delay which in part has been due to the number of Supply Departments and of subordinate Canteens, to which a specific reference has had to be made in order to obtain the necessary information, and in part to a desire to review your comments in the light of the financial returns for the year in respect of all Canteens in National Factories.

I regret, however, to inform you that for various reasons it has not yet been possible to present these returns on a similar and comparable basis, and I am to ask you therefore to accept the following statement in reply to the comments and questions raised in your letter.

For convenience in reference the actual text of your letter is given below where necessary; the explanation follows.

(1.) "*In delegating the management of Canteens originally to the Central Liquor Control Board the Ministry contemplated that (1) the capital cost of the buildings, establishment and equipment; (2) the current cost of maintaining the buildings; (3) the current cost of lighting and heating the premises; and (4) the cost of cleaning, if this could be done by the existing factory staff, should be defrayed by the Ministry, all other expenses being borne by the Canteen, which was to be self-supporting.*"

This is correct. The basis of charges was arrived at after a series of conferences between representatives of the Central Liquor Control Board and the Finance Department of the Ministry, and the final decision was communicated to the Supply Departments and to the Canteen Managements in National Factories in a circular letter dated the 5th January, 1917, and signed by Mr. Mann (now Sir John Mann), who was then Assistant Financial Secretary.

There was at that time great pressure, which to some extent persists, to increase the undertakings of the Ministry in respect of Canteen provision. The Central Control Board (Liquor Traffic) sought to encourage the Canteen habit by means of cheap food. The Welfare Department desired to see the workers better fed. The Factory Managers anticipated industrial quiet from well-filled stomachs, while the Supply Departments were concerned with output. It was urged on all sides that as so much was given there was no logical reason why the generosity of the Ministry should not be extended still further. These points of view demanded and received most careful consideration.

No one suggested that the food provided in Canteens should be given gratuitously, and it was therefore necessary to establish a fixed basis for the allocation of charges between the Factory and the Canteen. Direct and immediate financial returns on a commercial basis were not expected, and the general principle that governed the final decision was that the action of the Ministry should be that which might be expected from a generous private employer in approximately similar circumstances. The aim of the Ministry in approving the basis of charges set out in your letter was:—

(*a*) To set an example that would not prove unreasonably costly for an ordinary decent employer of labour to imitate.

(*b*) To secure for the worker an opportunity of buying food at a low price.

(*c*) To relieve the Ministry as far as possible from any charge of offering a subsidy in lieu of wages.

(2) "*In the course of a test examination of the Auditors' Reports on the Canteen Accounts to the 31st March, 1917, it was observed that in a number of cases there had been a continuous loss on working, more particularly in the case of Leeds I., £17,279; Leeds II., £7,352; Templeborough, £4,375; and Georgetown, £5,820, and these losses have been temporarily met by advances of money from the balances of the Factories with which they are connected. Moreover, it would appear that the losses will be more numerous and more extensive when the Canteen Accounts have been revised in accordance with the principles originally formulated by the Ministry and elaborated later in agreement with the Central Liquor Control Board.*"

The Canteens showing losses of £17,279 and £7,352 are those of the National Filling Factories Nos. 1 and 11, Barnbow, Leeds. These losses should be treated as one (£24,631), and, as is intimated in your letter, they have since been increased by the inclusion of all proper charges to £30,285. In the same manner necessary adjustments have increased the loss at the National Projectile Factory, Templeborough, from £4,375 to £4,846, and the loss on the Scottish Filling Factory from £5,820 to £7,700.

With regard to the above, I am glad to report that the position at Leeds has lately been much improved, and the losses on recent monthly accounts have been greatly reduced. The month of January showed a total loss of £1,298, but £287 of this was the charge for interest for the month on the advances made from Factory to meet previous losses, and I am informed that there was further improvement in February and in March.

Considerable improvement has also been shown in the results at Templeborough, the loss for February being £63 0s. 3d., of which £62 19s. 1d. is due to interest on advances.

Lastly, the Scottish Filling Factory, Georgetown, has shown a profit since June, 1917. The monthly profit for February, 1918, was £177, and after the experience of last year larger monthly profits may be expected in the summer when local produce is available at cheap rates.

With regard to the Canteens in National Factories, it may be said that their financial position has

greatly improved during the financial year, 1917–18, and any losses shown on current accounts are sure of receiving immediate attention.

(3) "*I am to inquire whether the Treasury was consulted as to the general arrangements for financing Canteen expenditure, and the principles on which they were to be worked.*"

No official correspondence took place between the Treasury and the Ministry with regard to the basis of charges in Canteens. It was known that the Treasury was represented upon the Central Liquor Control Board, and, further, it was arguable that deficits on trading in Canteens could not fairly be treated as "losses."

On the 3rd of January, 1916, the Minister (Mr. Lloyd George) invited the Central Liquor Control Board to undertake the general responsibility for the organisation of Canteens in National Factories, and it will be readily understood that, pending the announcement of the results of working, it was not feasible to establish a fixed basis on which the charges for food supplied in Canteens should be estimated.

(4) "*In the reports on the Leeds Account it was noticed that the office staff of the Factory is being supplied with meals at 3d. per head, the balance being paid to the Canteen by the Factory.*"

It is true that, following a precedent that is not uncommon in the North, in respect of the secretarial staff meals below cost price were at first offered to the office staff in Leeds No. 1 N.F.F. This privilege was challenged, and was withdrawn some months ago. No meals are now supplied to the office staff at a reduced price.

(5) "*Also that all members of the staff of the Factory or Canteen resident at Barnbow are provided with meals free of charge.*"

This also is true. Certain members of the Factory and Canteen staffs who reside in the Factory area or who are on duty for long hours at a stretch receive free meals. But the provision of these meals was duly considered in relation to the local standards of salaries and wages when the said salaries and wages were fixed.

(6) "*Similarly at Chilwell the employees are supplied with breakfast and dinner at the rate of 10d. per diem per head, the balance of the cost of these meals, 1s. 6d. or 1s. 8d. per day (1s. 3d. since December, 1916), being charged to the Factory.*"

At Chilwell women workers on T.N.T. are paid at the rate of 7½d. an hour, and they receive in addition two meals a day (breakfast and dinner), in respect of which a deduction is made of 10d. from their wages. The expenditure on meals in excess of the 10d. per day is reckoned as part of their wages, and is met by payments from the Factory account.

From the above it will be seen that the payments from the Factory Funds, both at Leeds and at Chilwell, are made in relation to the standards prevailing in the surrounding districts, though these incidents were not reported to the Ministry and no sanction was sought in respect of them from the Finance Department.

(7) "*Certain Canteens, it appears, are being run by outside agencies (Y.M.C.A., Church Army, &c.), and agreements were arranged between the Agents, the Managers of the Factories and the Central Liquor Control Board, which varied in character, and in some cases apparently provided for the cost of fuel for cooking and the cost of cleaning being charged to Factory accounts.*"

The number of Canteens in National Factories managed by Voluntary Societies or outside caterers is small. In the majority of cases the Canteen is managed by the Factory servants. When entrusted to outside caterers the terms of agreement have in places varied from the recognised basis.

Thus, at Greetland the managers of H.M. Factory, under the Explosives Department, entered into an agreement for the management of their Canteen, under which certain unauthorised services were provided by the Factory. As soon as the Finance Department became aware of the existence of the agreement the Supply Section concerned were informed of the irregularity, with the result that the agreement has now been terminated.

Again, in one Filling Factory, and in certain National Shell Factories, the Canteens are run and managed by the Y.M.C.A., with whom various terms were arranged. But here also, after conferences between representatives of the Finance Department, the Y.M.C.A. and the new Food Section of the Ministry, a standard form of agreement with the Y.M.C.A. has been formulated by the Legal Adviser of the Ministry on the accepted basis, and has been generally approved by the Y.M.C.A. One or two small amendments are still under consideration by the Legal Department, but as soon as these have been arranged the agreement will become the standard agreement to be used by the Food Section and all Supply Departments in respect of Canteens managed by outside caterers, as well as those undertaken by the Y.M.C.A. on behalf of the Ministry.

(8) "*The Office of Works appear also to have provided these Agency Canteens with equipment, the cost of which has not yet been taken up by the Canteens concerned, e.g., National Shell Factory, . . ., Agent Mrs. . . .*

It is the fact that the Office of Works provide equipment for all Canteens in National Factories, even when they are managed by an outside caterer. In the case of the N.S.F., . . ., to which special reference is made, Mrs. . . ., the Agent, undertook all responsibilities in connection with the equipment of this Canteen and its renewal. The charges of the Office of Works for the equipment have not yet been received by the Factory, but I am to inform you that as soon as they come to hand Mrs. . . . is prepared to meet them at her own expense.

(9) "*I am directed to inquire whether the agreements with outside agencies have been reviewed so as to ensure that no charges be made on Factory accounts other than those in relation to first equipment and maintenance of buildings, etc.*"

The explanation given above with reference to the standard agreement which is nearing completion gives the answer in the affirmative to this question.

(10) "*The control over administration of the individual Canteens in regard to system of purchase of supplies, etc., does not seem to have been satisfactory, the local authorities being allowed to make their own arrangements with the apparent result that in some cases large supplies were obtained at retail prices. I am to ask whether any action has been taken to introduce a system of contract wherever practicable.*"

The question of the control of the purchase of supplies by Canteens was a subject of special attention by the Canteen Finance Committee of the Ministry, and consideration was given to various

experiments that had been made in this direction with a view to the introduction of some common system.

Thus, at Woolwich the Chief Superintendent of Ordnance Factories in August, 1916, had placed the provision of supplies for Canteens in the Arsenal under the Welfare Section of his Department, who undertook the purchases in respect of all those Canteens, and allowed outside caterers conducting Canteens within the Arsenal to benefit by this organisation on payment of an addition of 7 per cent. on purchase prices to cover overhead charges.

Further, in January, 1917, certain factories in Lancashire under the Explosives Department had been grouped for the purpose of more economical purchasing, and a joint buyer was appointed. Here the purchases at the commencement averaged about £1,500 per month, whilst in October, 1917, they had increased to £3,600 per month.

Again, expert advisers had been appointed in the autumn of 1917 in respect of the Canteens managed by the Hostel Department and by the Filling Factories Department, whose business was to watch the prices paid by the Canteens under those Departments, and advise as to the placing of contracts.

Lastly, at the instance of the Canteen Finance Committee, a special inquiry was instituted into the purchase prices at Canteens in all National Factories, and this inquiry was followed by the issue of a standard return to be made monthly. On November 29th, 1917, a Sub-Committee was appointed to "review the monthly purchase sheets submitted by the managers of Canteens in National Factories, and, while allowing reasonable liberty for local purchases, to inquire into the economies that might be effected by a system of central purchase, and to make recommendations in connection therewith."

On the 21st of January, 1918, the Sub-Committee reported, the main recommendation being that the Navy and Army Canteens Board should become the purchasing and distributing Department for all Canteens in National Factories. This conclusion was accepted by the Supply Departments concerned and was adopted by the Canteen Finance Committee as a whole and reported to the Controller of Munitions Finance. If it had not been for the rationing of the majority of staple foods which was introduced shortly afterwards the proposals of the Committee would have been put into operation. Owing, however, to the fixing of prices and the rationing of supplies it became unnecessary to take action in this direction.

From the above it will be seen that the question of the economies to be effected by some system of central purchase received most careful consideration during 1917, that various tentative experiments were made in respect of it, and that finally a definite proposal was formulated, which would now in all probability be in existence if the Government's regulations in respect of rations and prices of standard foods had not been brought into operation, and rendered such an organisation unnecessary.

I am, in conclusion, to express the Minister's hope that the explanation given in this letter will be found to be satisfactory and will in any case serve to show that the problems raised by the provision of Canteens and food in National Factories have engaged the special attention of his Finance and Supply Departments from the time of their inception. I am also to add that it is the intention of the Minister to submit a complete statement of the financial results obtained in these Canteens up to 31st March last for review by their Lordships of the Treasury as soon as the returns in question can be presented on a comparable basis. These returns are nearing completion, and will, it is hoped, be presented in the course of next month.

I am, &c.
S. Dumbreuther.

The Comptroller and Auditor General,
Exchequer and Audit Department.

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