

MINISTRY OF TRANSPORT.

DEPARTMENTAL COMMITTEE

ON

RAILWAY AGREEMENTS.

REPORT

AND

APPENDICES.

Presented to Parliament by Command of His Majesty.



LONDON :

PRINTED AND PUBLISHED BY
HIS MAJESTY'S STATIONERY OFFICE.

To be purchased through any Bookseller or directly from
H.M. STATIONERY OFFICE at the following addresses:
IMPERIAL HOUSE, KINGSWAY, LONDON, W.C.2, and 28, ABINGDON STREET, LONDON, S.W.1 ;
37, PETER STREET, MANCHESTER ; 1, ST. ANDREW'S CRESCENT, CARDIFF ;
23, FORTH STREET, EDINBURGH ;
or from E. PONSONBY, LTD., 116, GRAFTON STREET, DUBLIN.

1921.

Statement of expenditure involved in the preparation of this Report :—

						<i>£</i>	<i>s.</i>	<i>d.</i>
Reporting, travelling and incidental expenses	...	...	...	...	...	245	7	0
Stationery, printing and publishing	...	...	...	...	...	1,050	0	0
					TOTAL	1,295	7	0

CONTENTS.

	Page.
CHAPTER I.—PRELIMINARY.	
1. Character of Committee's Investigation	5
2. Negotiation of Agreements	6
3. Settlement of Outstanding Questions	7
CHAPTER II.—ORIGINAL AGREEMENT AS TO DEFICIENCY OF NET RECEIPTS.	
1. Regulation of the Forces Act, 1871... ..	8
2. Origin and Extension of "Control"	8
3. Undertakings of which possession was taken	9
4. Negotiation of original Agreement	9
5. Guarantee of Net Receipts	10
6. The "Proviso Deduction"	11
7. Guarantee to cover payment for Government Traffic	11
8. Definition of "Net Receipts"	12
9. Regulation of Revenue and Expenditure for the purpose of arriving at Net Receipts	13
10. Investigation of Claims	14
11. Main Heads of Agreements	15
12. Periodical Claims rendered by the Companies during the period of Control	16
13. Outstanding Liabilities of Government	16
14. Effect and Intention of Agreements	16
CHAPTER III.—MAINTENANCE.	
1. Excess Maintenance	17
2. Current Payments on Account of Arrears of Maintenance	20
3. Outstanding Liability in respect of Arrears of Maintenance	21
4. Abnormal Wear and Tear	24
CHAPTER IV.—SUPPLEMENTARY CLAUSES TO AGREEMENT.	
1. General	25
2. Interest on Capital Expenditure	26
3. Replacement of Stores	28
CHAPTER V.—ESTIMATE OF OUTSTANDING LIABILITIES	31
CHAPTER VI.—IRISH RAILWAYS	32
CHAPTER VII.—FURTHER STEPS NECESSARY TO SAFEGUARD THE INTERESTS OF GOVERNMENT	32
CHAPTER VIII.—SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	33
RESERVATION BY MAJOR HARRY BARNES	35
RESERVATION BY MR. WILLIAM GRAHAM	35
<hr style="width: 30%; margin: 20px auto;"/>	
APPENDIX A.—Summary of Arrangements in regard to Maintenance	37
APPENDIX B.—Calculation of Arrears of Maintenance	38
APPENDIX C.—Outstanding Liability in respect of Arrears of Maintenance	40

DEPARTMENTAL COMMITTEE ON RAILWAY AGREEMENTS.

CONSTITUTION OF THE COMMITTEE.

LORD COLWYN (*Chairman*).

MAJOR HARRY BARNES, M.P.

SIR GODFREY COLLINS, C.M.G., M.P.

MR. WILLIAM GRAHAM, LL.B., M.P.

SIR HARDMAN LEVER, BART., K.C.B.

SIR HALFORD MACKINDER, M.P.

SIR THOMAS ROBINSON, M.P.

SIR PETER RYLANDS.

Secretary : MR. E. TWENTYMAN.

TERMS OF REFERENCE.

To consider and report as to—

- (i) the nature and terms of the Agreements made between the Government and the Railway Companies relating to the possession by the Government of the undertakings of the Companies;
- (ii) the possible extent of the outstanding liabilities of the State thereunder, according to the interpretations which may be placed upon such Agreements;
- (iii) whether, with due regard to cost, any further steps should be taken to secure that the interests of the State in reference to such Agreements are adequately safeguarded;

and generally to make such recommendations as appear desirable in the circumstances

To the RIGHT HONOURABLE SIR ERIC GEDDES, G.C.B., G.B.E., M.P.,
Minister of Transport.

SIR,

On the 24th September, 1920, you appointed us a Committee to enquire into the Agreements made between the Government and the Railway Companies, relating to the possession by the Government of the undertakings of the Companies, and to report to you on the various matters specified in our Terms of Reference.

We have met on 17 days and have taken evidence from the following witnesses:—

- Sir J. George Beharrell, D.S.O., Director-General of Finance and Statistics, Ministry of Transport.
- Sir William F. Marwood, K.C.B., Director-General of Public Safety and General Purposes, Ministry of Transport; formerly Joint Permanent Secretary, Board of Trade.
- Sir Alexander Gibb, G.B.E., C.B., Director-General of Civil Engineering, Ministry of Transport.
- Sir Albert Wyon, K.B.E., Senior Partner of Messrs. Price, Waterhouse & Co., Chartered Accountants; Government Accountant.
- Sir William Plender, G.B.E., Senior Partner of Messrs. Deloitte, Plender, Griffiths & Co., Chartered Accountants; Government Accountant.
- Sir Alexander Kaye Butterworth, General Manager, North Eastern Railway, Member of late Railway Executive Committee.

The circumstances under which Sir Alexander Butterworth's evidence was given are indicated at the commencement of his Proof (Appendix XXVI).

At our first meeting we came to the conclusion that it was undesirable that the investigation should be prejudiced by public discussion, on the basis of a partial disclosure of the evidence, of the complicated and far-reaching issues involved, and we accordingly decided to sit in private and to refrain from publishing the evidence currently. We are of opinion, however, that in the event of our Report being made public, it is desirable that the Minutes of Evidence and Appendices should be published at the same time.

CHAPTER I.

PRELIMINARY.

1. The Agreements, as to the nature and terms of which we were desired to report, are contained in a mass of documents and correspondence extending over a period of several years.

No document exists which records any clearly defined agreement between the Government and the Railway Companies, so far, at all events, as to cover the details of its application, and while the principles intended to govern the arrangement were laid down at the outset of the transaction and defined in a short memorandum, it was inevitable that points of detail should continually arise which required settlement, and arrangements to meet the exigencies of the moment were adopted, sometimes with the approval of the Board of Trade and of the Treasury, sometimes with the authority of the Government Accountants, and sometimes even with the authority of the Railway Executive Committee alone. These arrangements were again frequently subject to further change to meet the changed circumstances. Not unnaturally an agreement of such a character has proved lacking in definition and precision, and susceptible to varied interpretations.

In the circumstances we think it desirable to state clearly at the outset the standpoint from which we have approached the matters referred to us.

The interpretation of agreements is normally a matter of law, and there would appear to be room for wide differences of opinion as to the strict legal construction to be put upon the numerous financial arrangements, to a large extent loosely defined, that have from time to time been made between the Government and the controlled Railway Companies. This Committee is not competent to express legal dicta, and we do not apprehend that anything in the nature of legal

Character
of Com-
mittee's
Investiga-
tion.

interpretation was desired of us. We wish, however, to record unequivocally that we have made no attempt to deal with questions of legal construction, and to disavow in advance any intention of expressing opinions, or putting forward arguments, as to the strict legal position between the parties.

To some extent it has been necessary, in order to form judgments as to the merits of particular portions of the agreements or their effects in varying circumstances, to consider what were the intentions of the parties underlying the original agreement, and the subsequently agreed interpretations or amplifications of it, in so far as these intentions are expressed or implied by the documents, or can reasonably be deduced from the surrounding circumstances. From time to time in the course of this Report there will accordingly be found arguments based upon views we have formed as to the intention of the parties. Our primary object, however, has not been to interpret the documents by reference to the intentions underlying them.

The task we have set ourselves has been rather to examine the documents and the construction which has, in practice, been put upon them, to consider their operation in the light of present knowledge, and to endeavour to interpret the agreements, not by a narrow construction of the terminology of documents, or by a mere revision of the intentions underlying them, but on the broad ground of principle upon which they were expressed to be founded at the outset.

Negotiation of Agreements.

2. In order that the attitude that we have adopted may be understood and appreciated, it is desirable to indicate the manner in which the various agreements have from time to time been negotiated.

The negotiating parties were, on the one side, the responsible officials of the Board of Trade and the Treasury, and, on the other, the General Managers of twelve of the more important Railway Companies. The choice of the latter body was due to the fortuitous circumstance that there was in existence, readily available, a Committee—the Railway Executive Committee—which had been set up for another purpose, namely, to exercise operating control of the railways on behalf of the Government. These General Managers were not in a position to commit the Companies generally, or even their own Companies, to the acceptance of any particular agreement, but their commendation was naturally of considerable weight with the respective Boards of Directors.

The discussions which took place were to a large extent personal and informal; the "agreements" concluded were in the nature of periodical interpretations of a general understanding, which was never completely and exhaustively recorded. The original Agreement, though in formal terms, was one the application of which, even if the conditions obtaining in August, 1914, had remained substantially unmodified, would obviously raise many points of detail for subsequent discussion, and, in fact, as time went on and economic conditions altered, a number of important questions, which were not specifically covered by the terms of the original formula, were raised by the Railway Executive Committee.

While giving full recognition to the public-spirited attitude adopted throughout by the members of the Railway Executive Committee, it is necessary to point out that their position in regard to the negotiations was one of advantage. They were experts dealing with their own subject, whereas the officials with whom they negotiated were not experts, and were overwhelmed with the consideration of other important matters. We do not minimise the fact that the Board of Trade and the Treasury sought the advice in regard to accounting questions of two eminent Chartered Accountants. Despite this, we are of opinion that to say that the Railway Companies were in an advantageous bargaining position is a true statement of the case, and in putting it forward we do not desire to suggest that they were actuated by improper motives or took undue advantage of the position in which they found themselves.

Circumstances being as they were, however, it is not surprising that as time went on the interpretations and amplifications of the original Agreement resulted in a gradual bettering of the bargain in favour of the Railway Companies. The points that were brought up were brought up from the Railway side; they were points in regard to which the Railway Executive Committee thought that, without interpretation or amplification, the Companies would be damnified. There was consequently a gradual definition of the Railway Companies' rights under the Agreement, while there was no corresponding definition of the rights of the Government. The result of this process is clearly seen in the fact that there is an almost complete absence of reciprocity in the detailed arrangements.

It is probable that the consequences of what can only be described as a lamentable lack of precision in many of the documents would not have been considerable had the period of possession been limited to the actual war period.

It is easy to be wise after the event, and the Committee hesitate to attach undue blame to the Government for lack of prevision, having regard to the surrounding circumstances.

It must be remembered that the war came on the country like a bolt from the blue. Results were everything; financial considerations of comparatively small account. No experience existed which would offer any guide, such as was subsequently enjoyed when the control of Industry in other directions came to be undertaken.

Moreover, there is no doubt that it was the general opinion that the war would not be of long duration. It was therefore necessary to do nothing more than make a provision which would be perfectly satisfactory on the assumption that it is intended for but a limited time.

It was recognised from the outset that the nature of the agreement into which the Government had entered was such as to impose a position of trust on the Companies, and in a Circular Letter dated 13th August, 1914, the Railway Executive Committee recorded their view of the position in the following terms:—

“It is hardly necessary to point out that the arrangement is one which in spite of its great convenience both to themselves and the Companies, the Government could not have agreed to, had they not been assured of the absolute good faith of the Companies, and had they not felt certain that they could rely on all officers of the Companies concerned acting loyally up to the spirit of the arrangement.”

We desire unequivocally to record our opinion that throughout the negotiations the Members of the Railway Executive Committee realised this spirit to the full—a spirit which was consistently exhibited in Circular Letters issued from time to time to the individual Companies.

3. The fact that the Agreements have been entered into and carried out in the manner indicated above involves that outstanding questions should be similarly dealt with. It would be a matter for regret if the spirit of mutual trust and fair dealing which has hitherto characterised both the negotiation of the Agreements and their application were to give place, in the final settlement, to one of tenacious insistence upon documentary rights.

Settlement
of Out-
standing
Questions.

It is unfortunately the case, however, that the conditions which promoted the personal and informal discussion of the Agreements, and their interpretation during the war, no longer exist. The Railway Executive Committee has been dissolved, and though some of its members are still associated in the General Managers' Committee they are no longer in any fiduciary relationship with the Government. War enthusiasm and the spirit which flowed from it have to a large extent departed, and indeed it is natural that in the changed conditions of to-day the Railway Companies should be concerned to protect their shareholders.

We do not suggest that the members of the late Railway Executive Committee and those immediately associated with them will not be found willing to negotiate a settlement of outstanding questions in the same spirit of reasonable accommodation that characterised the negotiation of the Agreements, but there is the difficulty that whereas that negotiation was carried on informally and personally, with an unauthorised body of Railway Managers, the settlement must be with the individual Companies, all of whom may not have the same appreciation of the underlying spirit of the Agreements as has been evidenced by members of the Executive Committee. As early as 1916, the Executive Committee found that no less than 23 Companies were incurring expenditure on maintenance, at the cost of the Government, which appeared to be excessive. A meeting of representatives of these Companies was held, at which members of the Railway Executive Committee impressed upon them the honourable obligation undertaken by the Railway Executive Committee to see that advantage was not taken of the Agreements to improve railway undertakings at the expense of the State; in the report of this meeting, submitted to the Railway Executive Committee, it was stated that the meeting had not been without advantage in the case of some Companies not closely associated with the Committee. If the attitude of the Members of the Railway Executive Committee was not shared by all the Companies in the early years of the war, it is less likely that it will be so shared now.

Owing to incomplete definition of the rights of the Government, constructions are being put upon the Agreements which appear to us to be inequitable, and opposed to the intention of the representatives of the Government and the Railway

Companies by whom they were negotiated. The settlement of these questions is in reality the continuation and completion of the process of interpretation to which we have referred.

CHAPTER II.

ORIGINAL AGREEMENT AS TO DEFICIENCY OF NET RECEIPTS.

Regulation of the Forces Act, 1871.

1. The relations which have subsisted between the Government and the controlled Railways of Great Britain and Ireland during and since the war, have their origin in the Regulation of the Forces Act, 1871, the relevant provisions of which are as follows :—

“ 16. When Her Majesty, by Order in Council, declares that an emergency has arisen in which it is expedient for the public service that Her Majesty's Government should have control over the railroads in the United Kingdom, or any of them, the Secretary of State may, by warrant under his hand, empower any person or persons named in such warrant to take possession in the name or on behalf of Her Majesty of any railroad in the United Kingdom, and of the plant belonging thereto, or of any part thereof, and may take possession of any plant without taking possession of the railroad itself, and to use the same for Her Majesty's service at such times and in such manner as the Secretary of State may direct; and the directors, officers, and servants of any such railroad shall obey the directions of the Secretary of State as to the user of such railroad or plant as aforesaid for Her Majesty's service.

“ Any warrant granted by the said Secretary of State in pursuance of this section shall remain in force for one week only, but may be renewed from week to week so long as, in the opinion of the said Secretary of State, the emergency continues.

“ There shall be paid to any person or body of persons whose railroad or plant may be taken possession of in pursuance of this section, out of moneys to be provided by Parliament, such full compensation for any loss or injury they may have sustained by the exercise of the powers of the Secretary of State under this section as may be agreed upon between the said Secretary of State and the said person or body of persons, or, in case of difference, may be settled by arbitration in manner provided by ‘ The Lands Clauses Consolidation Act, 1845.’

“ Where any railroad or plant is taken possession of in the name or on behalf of Her Majesty in pursuance of this section all contracts and engagements between the person or body of persons whose railroad is so taken possession of and the directors, officers, and servants of such person or body of persons or between such person or body of persons and any other persons in relation to the working or maintenance of the railroad, or in relation to the supply or working of the plant of such railroad, which would, if such possession had not been taken, have been enforceable by or against the said person or body of persons, shall during the continuance of such possession be enforceable by or against Her Majesty.

“ For the purposes of this section ‘ railroad ’ shall include any tramway, whether worked by animal or mechanical power, or partly in one way and partly in the other, and any stations, works, or accommodation belonging to or required for the working of such railroad or tramway.

“ ‘ Plant ’ shall include any engines, rolling stock, horses, or other animal or mechanical power, and all things necessary for the proper working of a railroad or tramway which are not included in the word ‘ railroad.’ ”

Origin and Extension of “ Control.”

2. Acting under the powers thus conferred upon him, the Secretary of State for War took possession of the controlled Railways of Great Britain as from midnight, 4th-5th August, 1914. The warrant under which possession was taken was valid for one week only, and was in fact renewed weekly until August, 1919, when statutory provision in the Ministry of Transport Act rendered its continuance unnecessary.

In September, 1916, the Chairman of the Railway Companies Association was informed by the President of the Board of Trade that “ the Government undertakes to extend the period of guarantee of net receipts to two years after the termination of the war.” It was stated in evidence that this extension was given in order to induce the Companies to re-open negotiations with the men's Unions, with a view to averting a threatened strike at a crucial period. The Companies had asked for a considerably longer extension.

By provision in the Ministry of Transport Act, 1919, Section (3) (1) (a), the Government took upon itself a statutory obligation to retain possession for a period of two years from the passing of the Act, *i.e.*, up to 15th August, 1921, "on the same terms as to compensation as those heretofore in force." In the absence of this provision, which was regarded as a fulfilment of the undertaking given by the Government in 1916, the period of control would have been even more protracted, as, owing to the lapse of time before the final termination of the war can be fixed, the two years would not yet have commenced to run. Even with this limitation, however, the period of possession will have extended no less than two years and nine months beyond the actual war period, and the Companies will have had the benefit of a State guarantee for a considerable length of time beyond that justified by the military needs of the country. This latter period will have included a railway strike, a coal strike and a serious trade depression, the effects of which, even with railway rates at an economic level, would, in the absence of a State guarantee, have been felt by railway shareholders in the form of reduced dividends. In obtaining from the Government, in 1916, an undertaking that the guarantee should be extended for two years after the war, the Companies secured an advantage to which they would appear to have no sort of title under the Act of 1871.

It will thus be seen that in the course of time the character of the Government's "possession" of the Railways has undergone a complete change. It began as a temporary control of traffic for purely military purposes, with a liability for compensation for purely military acts; it has developed into a comprehensive financial transaction, entirely divorced from military considerations, covering the whole area of railway administration, and continuing long after the circumstances which originally justified it have ceased to exist.

3. A list of the undertakings of which possession has been taken will be found in Appendix I, page 147. The only Railways not controlled are the London Tube Railways and a number of isolated Light Railways throughout the country, which were regarded as being of no military importance. The Metropolitan District Railway was, however, taken into possession; but by special arrangement the Government has no longer any liability in respect of the current working of this undertaking.

Under-
takings of
which
possession
was taken.

The Irish Railways were "controlled" as from 1st January, 1917.

4. The Act of 1871, quoted above, provided that the owners of the undertakings of which possession was taken should receive such full compensation for any loss or injury they might sustain, by reason of the exercise of the powers conferred upon the Secretary of State, as might be agreed between the parties, or in default of agreement, should be settled by arbitration. It was clear that some Companies would suffer loss of revenue by reason of Government control of traffic for war purposes, and that those Companies would have to be compensated for such loss. There was doubt, however, whether the Government would be entitled to retain the abnormal receipts of those Companies whose traffic benefited in consequence of war requirements. The Board of Trade were anxious to overcome this difficulty by dealing with the Railways as a whole, instead of with individual Companies, and had suggested that for this purpose a pool of railway revenue should be formed. The Railway Executive Committee, however, were of opinion that a pool was unnecessary, as in their view the revenue of the Railway Companies whose undertakings were taken over would belong to the Government. The Board of Trade were advised that there was doubt as to the legal position, and that it would be well to conclude an agreement with the Companies, as provided by the Act, defining the compensation to be paid.

Negotia-
tion
of original
Agree-
ment.

Accordingly a formula was put forward by the Board of Trade, under which the compensation to be paid was defined as being the ascertained deficiency, as compared with the corresponding period of the previous year (*or, alternatively, of the previous three years*), in the aggregate net receipts of all the controlled Companies, *less any amount of such deficiency attributable to causes other than the operation of the Regulation of the Forces Act, 1871.*

The Railway Executive Committee objected to the proposal that the average net receipts of the previous three years should be taken as the basis of compensation, on the ground that, owing to the change in the statutory form of accounts, introduced in 1913, the published net receipts of that year were not strictly comparable with the corresponding figures for 1911 and 1912, and further, that the revenue of 1911 and 1912 had been adversely affected by exceptional circumstances.

such as coal and other strikes, which had operated unevenly as between individual Companies

The representatives of the Railway Companies also maintained that it would be impracticable to differentiate the amount of the deficiency not due to the operation of the Act of 1871, and submitted a memorandum designed to show that a simple guarantee of the net receipts of 1913 would, in the circumstances contemplated, provide a fair definition of the compensation to which the Companies were entitled, viz., compensation for loss or injury due to the exercise of the powers of the Secretary of State.

It was clearly the object of the parties in these early discussions to find a formula which should fairly assess the limited compensation to which the Companies were entitled under the Act. It was made clear to the Board of Trade, however, that an agreement on the basis of a pool of railway revenue, accompanied by a State guarantee, which was regarded by both parties as the only form of agreement affording the facilities necessary to meet the requirements of the emergency, would not be accepted by the Railway Companies if any attempt were to be made to limit the deficiency to be made up, under the guarantee, to the deficiency attributable to the operation of the Act. It thus appeared to the Board of Trade that the only means of protecting the State against undefined, and possibly large, claims to compensation at the end of the period of possession, was to guarantee a certain quantum of net receipts, from whatever cause deficiency might arise.

While appreciating the difficulties of the Railway Executive Committee in accepting a guarantee which would differentiate the effects of causes other than the operation of the Act of 1871, we are of opinion that considerable unforeseen advantages have accrued to the Companies in consequence of the exclusion of the limiting words originally proposed by the Board of Trade.

Guarantee
of Net
Receipts.

5. In these circumstances it was agreed, on 6th August, 1914, that the compensation payable under the Act of 1871 should be ascertained in accordance with the following formula:—

“ To ascertain the compensation payable the aggregate net receipts of all the Railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year. The ascertained deficiency shall be the amount of compensation due. Provided that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency shall be reduced in the like proportion. Any question as to the amount of the deficiency shall, in default of agreement, be determined by the Railway and Canal Commission.”

This formula was expressly accepted by all the controlled main line Companies, but formal assent does not appear to have been given by the leased and worked Companies. The latter have assented by implication—by accepting payments on the same basis as the main line Companies—with one exception, in which a worked line declines to accept the 1913 basis of revenue and claims to have traffic receipts divided in accordance with its agreement with the working Company.

If, as was then contemplated, the period of possession had not lasted more than a few months, a guarantee of net receipts, without adjustment in respect of deficiency attributable to general causes, might in all probability have provided a reasonable measure of the compensation to which the Companies were entitled under the Act of 1871, *i.e.*, compensation for loss or injury directly due to the exercise of the powers conferred by that Act on the Secretary of State for War.

With the prolongation of control, and the extensive changes of conditions that ensued, the Companies have been protected, not merely against loss or injury resulting from the exercise of the powers of the Secretary of State under the Regulation of the Forces Act, but against other consequences of the war arising during the period of possession. Indeed, as we have already said, the protection has extended far beyond the direct consequences of the war and has relieved railway shareholders from the loss they would otherwise have sustained as the result of post-war disturbances and depression of trade.

This protection was not shared by other Public Utility Companies, and we are of opinion, despite our full appreciation of the great services rendered to the Nation by the Railway Companies during the War, that it has been an advantage to them which was not contemplated either by the Regulation of the Forces Act or by the original Agreement itself.

In view of the fact that the effects of the Agreement have exceeded, in considerable measure, not only the legal requirements of the case, but also the intention and expectation of those who concluded it, we have considered whether we should recommend the revision of the Agreement with a view to the Companies being accorded compensation for loss or injury attributable to the operation of the Regulation of the Forces Act, and no more. We have come to the conclusion, however, that in all the circumstances such a course is impracticable.

We are satisfied that in agreeing to pay compensation on the basis of a guarantee of net receipts, it was intended by the Government and so understood by the Railway Executive Committee that such compensation should cover all loss or injury that might result from Government control. No suggestion was made, at the time the original Agreement was concluded, that the agreed compensation was not exhaustive of the Government's liability under the Act of 1871, and so far as we are aware no such question was raised in the course of the subsequent interpretation and amplification of the original Agreement.

In view, however, of the suggestion, put forward on behalf of the Railway Companies, that claims may be preferred against the Government for compensation under the Act of 1871, in addition to that provided for by the guarantee of net receipts, as subsequently interpreted and amplified, we desire to place on record our strong view that it will be improper for any such claim to be accepted, except on the basis of a complete revision of the existing agreements, with a view to the total compensation paid or payable to the Companies being restricted to compensation for loss or injury directly due to the exercise of the powers conferred by the Act of 1871 on the Secretary of State for War. We are of opinion that it would be in the last degree inequitable that the Companies should enjoy the benefit of agreements extending so far beyond their original purpose, and conferring upon them unique and unforeseen advantages, and in addition receive compensation for other problematical losses which it may be possible to argue are not specifically covered by the compensation paid under those agreements.

6. The proviso in the Agreement as to Net Receipts, under which the ascertained deficiency was to be reduced by a percentage based on the decline in the aggregate net receipts of 1914, as compared with those of 1913, was introduced into the original formula by the Board of Trade, when the words limiting the compensation payable under that formula, to compensation for loss or injury attributable to the operation of the Act of 1871, were deleted in view of the representations of the Railway Executive Committee. We do not understand, however, that it was considered that this proviso was in any way in substitution of the limiting words.

The "Proviso Deduction."

It was realised at the time that the year 1913 was the most favourable year from a revenue point of view that the Companies had ever had, and in the original draft of the agreement put forward by the Board of Trade the suggestion had been made that the net receipts to be guaranteed should be the average of the net receipts of the preceding three years, instead of those of 1913. This suggestion was not accepted, owing to the objections of the Executive Committee to which we have already referred; the object of the Government in introducing the proviso was evidently to restrict to some extent the benefit the Companies would have enjoyed by a guarantee of the abnormally high net receipts of 1913.

The effect of this proviso, however, was inconsiderable, and we are unable to conceive that its terms expressed the intention the Government had in view.

The Companies objected to the "proviso deduction," rather on the ground that its application would present accounting difficulties than on its merits, and it was applied in respect of the first account of the deficiency of net receipts, for the period 5th August to 31st December, 1914, only. As from that date it was waived in consideration of the Companies agreeing to bear against their own funds 25 per cent. of the cost of the first War Bonus granted to men in the Conciliation Scheme. At the time it was thought that these two considerations roughly balanced each other.

7. The Agreement was published by the Board of Trade on 15th September, 1914, the notice stating:—

"The compensation to be paid under this arrangement will cover all special services such as those in connection with military and naval transport rendered to the Government by the Railway Companies concerned, and it will therefore be unnecessary to make any payments in respect of such transport on the railways taken over."

Guarantee to cover payment for Government Traffic.

The fact that the compensation payable was to cover payment for Government traffic was one of the chief reasons which induced the Government to agree to this method of assessing compensation. It was quite clearly their understanding and intention, and indeed we regard it as an inherent condition of the Agreement itself, that in the event of there being during the period of possession any surplus of net receipts over the 1913 basis, the Government would be entitled to retain such surplus.

The point is probably not of practical importance, as the likelihood of there being a surplus of net receipts in respect of the whole period of control was always remote. We mention it, however, in view of the fact that the possibility of the Companies claiming the right to charge for Government traffic and to retain the surplus receipts, if any, resulting, was a consideration in the mind of the Treasury when in 1916 they agreed to the Supplementary Clauses to the Agreement incorporated in the Pink Book.

The suggestion that the Companies were entitled to charge for Government traffic, and to retain surplus receipts, does not appear to have been put forward at any time, as a separate issue, for discussion on its merits. Sir Alexander Butterworth, who was predominantly concerned with the negotiations on the railway side, has stated that these Clauses were discussed and conceded entirely on their merits, and that there was never any serious suggestion, in the course of the negotiations, that the foregoing of any possible claim the Railway Companies, or any of them, might have thought they had, to charge for Government traffic and retain surplus receipts, was put forward as a *quid pro quo*.

It is nevertheless the case that the Treasury, when agreeing to the Supplementary Clauses, required an assurance from the Executive Committee that the right of the Government under the original Agreement to require free carriage, and to retain any surplus receipts realised, would not in future be questioned. The matter is obscure, and we have Sir Alexander Butterworth's statement that the Companies did not unduly use an unjustifiable claim as a lever for obtaining concessions during the war. The fact that the Treasury was concerned to secure an understanding on the question with the Executive Committee is significant of the unsatisfactory position in which the Government was placed.

Definition
of "Net
Receipts."

8. The first question that arose after the formulation of the original terms of compensation was that of defining the "net receipts" to be guaranteed. There appears to have been some difference of opinion among members of the Railway Executive Committee as to whether all the items in their net revenue accounts should be included or not. The Government, however, acting on the advice of Sir William Plender, proposed that "net receipts" should be defined to mean the net receipts of the first seven items in Account No. 8 of the First Schedule to the Railway Companies (Accounts and Returns) Act, 1911, excluding the item "Miscellaneous Receipts (Net)."

The justification for this proposal was that the inclusion of the item "Miscellaneous Receipts (Net)" would lead to accounting difficulties in regard to one of the items in that account, viz.: "General Interest," owing to the fact that interest received was treated as a credit to working expenses, whereas interest paid was treated as an appropriation from net revenue. It was further pointed out that the items under "Miscellaneous Receipts (Net)" were items not concerned with railway operating pure and simple, which alone would be directly affected by the consequences of Government control; that they were likely to show little variation during the period of possession, and if anything would decrease. Their exclusion, therefore, would not militate against the chief principle underlying the Agreement, that the Government were to compensate the Companies for loss or injury resulting from the operation of the Act of 1871, while, in the course of events anticipated at the time, if there was any variation at all in the ascertained receipts under this head, its exclusion from the guarantee would be to the advantage of the Government.

So far from this expectation having been realised, the exclusion of "Miscellaneous Receipts (Net)" from the guarantee has resulted in considerable benefits to the Companies. Not only have their receipts from general interest increased owing to the increase in the Bank Rate, but they have been enabled to enjoy, in addition to their guaranteed net receipts, the interest realised from the investment of the large sums paid to them currently on account of deferred maintenance. The increase of the below-the-line* revenue of fourteen principal Companies up

* The first seven items of Account No. 8. ("Revenue Receipts and Expenditure") of the Railway Companies statutory form of accounts are totalled separately from the eighth item. The two totals are commonly designated "above-the-line revenue" and "below-the-line revenue" respectively. The Government guarantee covers the above-the-line revenue only. (*Vid* Appendix II.)

to the end of 1919 amounted to approximately £2,000,000*; about two-thirds of which accrued in the year 1919. It is to be expected, therefore, that the figure will be considerably enhanced by the end of the period of possession.

The restriction of the Government guarantee to the above-the-line net receipts, although it obviated an initial accounting difficulty in regard to the treatment of general interest, has led to difficulties in practice owing to the fact that receipts may be diverted from Government account without adjustment of the net receipts basis.

For instance, if property previously used in railway working is leased, the rents subsequently realised are credited, in accordance with the statutory form of accounts, below-the-line; if property earning revenue in the base year is sold and the proceeds invested, the resulting interest is enjoyed by the Company as below-the-line revenue.

On the other hand, if property, the revenue from which has been received by the Company below-the-line, is transferred during control to railway working, when the revenue produced accrues, above-the-line, to Government account, the Company is, as a rule, entitled to claim interest, in addition to its guaranteed net receipts, under the agreement as to interest on capital expenditure. (*Vide* Chapter IV, §2.)

We are of opinion that the property of which possession was taken in 1914, that was employed in the standard year in the production of the guaranteed net receipts, remains in the possession of the Government throughout the period, and that the revenue earned by such property, in whatever way it may be earned, should be credited to Government account. We understand that this principle has been recognised by some Companies, in the case of diversion of revenue from above-the-line to below-the-line in consequence of a change in the use to which an asset has been put, and that in a few cases of this kind suitable adjustments have been made in the Companies' accounts with the Government, although the accounting instructions do not provide for such adjustments. In this class of case, also, there may conceivably be converse transactions in respect of which Companies have not received interest on the capital value of the asset transferred. The matter is not of sufficient importance to justify any retrospective review of such transactions.

The case of property sold, which is of greater importance, is more conveniently dealt with in connection with the arrangements as to interest on capital expenditure. (*Vide* Chapter IV, §2.)

9. A manual of instructions for the preparation of the accounts to be presented by each controlled Company, for the purpose of arriving at the amount of compensation payable under the Agreement, was issued to the Companies by the Railway Executive Committee on 4th March, 1915. These instructions were approved by the Board of Trade, on the advice of Sir William Plender and Mr. Gurney Fowler,—the Consulting Accountants appointed to assist the Government in connection with the Agreement,—and were concurred in by the Treasury.

Regulation of Revenue and Expenditure for the purpose of arriving at Net Receipts.

These detailed instructions, known as the Blue Book, are printed *in extenso* in Appendix I. Their most important provisions may be summarised as follows:—

In determining the amount of revenue for the control period, each Company should follow strictly the method which regulated the preparation of its accounts in 1913.

Reserves for estimated revenue liabilities should be proportionate to the sums necessary for the half-year ended 31st December, 1913.

Expenditure chargeable for the control period should be ascertained as far as it was possible to do so.

The amount charged for the renewal of permanent way and rolling stock was not to exceed the amount included in the corresponding period of 1913, except under special circumstances. (*Vide* Chapter III.)

It will be seen that no attempt was made to regulate the general expenditure of the Companies. In the circumstances existing at that time it was impracticable for the Board of Trade to institute an effective control of the details of railway expenditure. As a matter of fact the question was probably never considered; it was in keeping with the idea underlying the Agreement that no attempt should be made by the Government to interfere in any way with the directors or officers of the Companies in the management of their undertakings, and that the latter should be under an honourable obligation to protect the interests of the Government.

* *Vide* Appendix V.

This underlying idea was well expressed in a Circular Letter issued to the Companies by the Acting-Chairman of the Railway Executive Committee on 13th August, 1914, from which the following passages are quoted :—

“ The Executive Committee are pleased to be able to announce that practically all the Companies whose Railways have been taken over by the Government have agreed to the proposal outlined in my letter of the 8th instant, under which the Government guarantee the net receipts of the Railways collectively.

“ It is hardly necessary to point out that the arrangement is one which in spite of its great convenience both to themselves and the Companies, the Government could not have agreed to, had they not been assured of the absolute good faith of the Companies, and had they not felt certain that they could rely on all officers of the Companies concerned acting loyally up to the spirit of the arrangement.

“ Broadly speaking, the idea underlying the arrangement is that the financial results to each Company for the period of Government control shall be the same as if the Railways had remained under the control of the Companies, and the receipts and expenses of each Railway had been the same as they were in the corresponding period of the previous year, subject to a deduction proportionate to any falling off in the net receipts disclosed by the accounts of the Companies as a whole for the first half-year of 1914. The result is that, during the period of Government control, the advantage of all economies will enure to the benefit of the Government, and, correspondingly, the whole burden of expenditure will fall on them.

“ This state of things obviously imposes an honourable obligation upon the Companies to see that all proper economies are made, and that no abnormal or unnecessary expenditure is incurred.”

With the exception of expenditure on maintenance—a problem with which we deal elsewhere—it may be supposed that any tendency to slackness in effecting economies, that a guarantee might otherwise have promoted, or any incentive to extravagant or unnecessary expenditure, will have been counteracted by the consideration that the effects of such action on the part of the Companies would persist, to their own disadvantage, after the period of Government possession. To a great extent this is true. It is nevertheless the case that a guarantee is never productive of efficiency. During the war the absence of control over general railway expenditure was probably inevitable, and it would perhaps be impossible, under any circumstances, to establish a satisfactory control over detailed expenditure.

Investigation of Claims.

10. The Blue Book contained the following provision in regard to the certification of the accounts to be submitted by the Companies in support of the claim to deficiency of net receipts :—

“ The accounts as submitted to the Board of Trade should have a certificate attached signed by the Chief Accountant, the Auditors or the Professional Accountants of each Railway Company, somewhat on the following lines :—

We have examined the Accounts attached, and compared them with the books and vouchers of the Company. We certify that they are correct and that they have been prepared strictly in accordance with the Memorandum of Instructions dated March, 1915, issued by the Railway Executive Committee with the approval of His Majesty's Government.”

At the outset the Government relied on the certificates of the Companies' Professional Auditors, supplemented by a general examination by one of the two Consulting Accountants appointed for the purpose. These gentlemen acted in what was practically an honorary capacity, and rendered valuable service not only in the examination of claims but in advising the Government in regard to accounting questions that arose from time to time. The independent investigation, however, was not, and was not intended to be, an adequate audit.

The Railway Executive Committee set up an organisation of Railway Accountants to investigate the Companies' claims and ensure their presentation in a uniform manner and in accordance with the Agreements. The Board of

Trade and the Treasury came to recognise and rely upon the protection thus established, and in our opinion the organisation was of value not only to the Companies but to the Government.

At the same time such a system contained inherent defects. The members of the Railway Executive Committee and still more the members of the Accountants Sub-Committee and the Investigators, found themselves, even if unconsciously, in a dual position of considerable difficulty. With the most careful arrangements for the examination of the claims of individual Companies by accountants of other Companies, it was inevitable that the Investigators and the members of the Accountants Sub-Committee were to some extent swayed by considerations of railway interests. In saying this, we do not impute the slightest bad faith on the part of the railway accountants concerned, whose public service we recognise in the fullest degree, but we think that it was psychologically impossible, in the circumstances of the case, that they could have entirely freed themselves of the unconscious bias, in favour of the railway point of view, that their experience and interests would promote.

11. It may be convenient, at this point, to summarise the Agreements under their main headings and to indicate briefly their scope. The provisions of the more important of the later Agreements, and the circumstances under which they came to be made, are dealt with more fully in succeeding chapters :—

Main
Heads
of Agree-
ments.

1. *Agreement as to Deficiency of Net Receipts.*

2. *Arrears of Maintenance.*

It was represented by the Railway Executive Committee in 1914 that the Companies' normal maintenance work was being postponed in consequence of their undertaking the manufacture of war material. The Government agreed that in these circumstances the cost of the deferred work, when it came to be executed, should be borne by the Government. In 1915 arrangements were made for the discharge of this liability, in the case of deferred repairs and renewals of permanent way and rolling stock, by current payments.

In 1917 these payments were converted into payments on account, the Government undertaking to pay the balance of the cost when the deferred work was carried out.

3. *Abnormal Wear and Tear.*

In connection with Arrears of Maintenance it was agreed that the cost of making good abnormal wear and tear should be borne by the Government, provided the Company could produce satisfactory evidence in support of its claim; that in the event of abnormal wear and tear being made good during the period of control, the expenditure on making good should be allowed as a special item, *i.e.*, it should not be taken into account in calculating arrears of normal maintenance; and that claims in respect of abnormal wear and tear not made good during the period of control would be considered at the end of the period.

4. *Interest on new Capital Expenditure.*

It was agreed in 1916 that the Companies should be paid interest, in addition to the guaranteed net receipts, on capital expenditure on works, etc., brought into use after 31st December, 1912, the revenue from which was additional to the revenue of the standard period. The arrangement was modified in the Companies' favour in 1919.

5. *Replacement of Stores.*

It was provided in 1916 that in order to secure the Companies against loss they might sustain, after the period of control, by reason of their holding stocks of stores bought at inflated war prices, a cash payment should be made at the end of the period, representing the increased cost to the Companies of replacing the stock of stores held by them in 1914.

In addition to the above, special arrangements were made from time to time in regard to various matters, including Compensation for Lost Ships, Insurance of Railway Companies' Properties against Fire, payment for railway works constructed for Government Departments, and other questions which arose out of changing circumstances and demanded current solution. Particulars of these arrangements will be found in the Letters and Documents printed in Appendix I, and in the Minutes of Evidence. We have not thought it necessary to deal with them in detail in our Report.

Periodical Claims rendered by the Companies during the period of Control.

12. Compensation under the Agreements is paid on claims rendered by the Companies currently under the following separate heads :—

- (a) *Account of Net Receipts (or Compensation Claim)*, in respect of the deficiency of net receipts as compared with the net receipts of 1911. This claim, the preparation of which is regulated by the Memorandum of Instructions (Blue Book) referred to above, covers all the expenditure incurred by the Companies during the control period in respect of the accounts the net receipts of which are guaranteed.
- (b) *Arrears of Maintenance, Abstract A* }
 (c) *Arrears of Maintenance, Abstract B* }
 in respect of instalments payable currently on account of the ultimate cost of executing normal maintenance work deferred during the period of possession.

In the event of a Company justifying a claim in respect of *Abnormal Wear and Tear*, the expenditure charged in the Account of Net Receipts would be allowed as a special item, and not regarded as normal expenditure for the purpose of arriving at Arrears of Maintenance.

- (d) *Interest on capital expenditure*, in respect of interest on amounts expended by the Companies on capital assets additional to those in use throughout the base period.

Outstanding Liabilities of Government.

13. In addition to the payments made currently on these claims, there may be outstanding liabilities to be settled after the termination of the period of possession, under the following heads :—

- (a) *Arrears of maintenance of Permanent Way and Rolling Stock* in respect of the balance of the cost of executing such arrears of maintenance, when the work is executed and at the prices the ruling.
- (b) *Arrears of maintenance of Plant, etc., other than Permanent Way and Rolling Stock.*—Current payments are not made on account of these arrears; the Government is under obligation to meet the whole cost of executing them, when the work is executed and at the prices the ruling, less any portion of such cost already borne by the Government through the Account of Net Receipts in the form of Transfer to Provision Funds.
- (c) *Abnormal Wear and Tear*, in respect of the cost of making good abnormal wear and tear not made good during the period of possession.
- (d) *Replacement of Stores*, in respect of the increased cost of replacing, at the end of the period of possession, the stocks of stores held by the Companies in 1914.

We are informed that claims may also be preferred by the Companies in respect of additional compensation to which they regard themselves as entitled under the Regulation of the Forces Act, 1871, and the Ministry of Transport Act, 1919.

Effect and Intention of Agreements.

14. The Agreement of 1914 guaranteed the controlled Railway Companies, collectively, the aggregate net receipts, shown in the Published Accounts of 1913, of the first seven items of Account No. 8 of the Statutory Account, less a percentage deduction. The subsequent Agreements were intended to be in the nature of interpretations and amplifications of the original Agreement, designed to carry out the underlying purpose of that Agreement in changing circumstances.

The underlying purpose of the original Agreement was that while the Companies were under obligation to exercise all possible economies, and prevent all unnecessary expenditure, the financial results to each Company during the period of possession should be the same as they would have been had the undertakings remained under the control of the Companies and the receipts and expenses of each railway had been the same as they were in the corresponding period of the previous year.

In pursuance of this intention special arrangements were subsequently made, under which the Government accepted liability, in addition to the guaranteed net receipts, for abnormal expenditure rendered necessary by their requirements, *e.g.*, in respect of abnormal wear and tear due to Government traffic, and sidings, etc., specially constructed for Government Departments.

CHAPTER III.
MAINTENANCE.

(The detailed arrangements regarding Maintenance are summarised in Appendices A and B.)

1. The Memorandum of Instructions to Railway Companies for the preparation of the accounts to be presented by each controlled Company, to arrive at the amount of compensation payable under the Agreement, issued by the Railway Executive Committee on 4th March, 1915, and known as the Blue Book, contained the following clauses relating to maintenance :—

Excess
Mainten-
ance.

“ Expenditure from 5th August, 1914.

4. The expenditure chargeable for the control period must be ascertained as far as it is possible to do so, with the proviso that the amount charged for the renewal of permanent way and rolling stock is not to exceed the amount included in the corresponding period of 1913, except under special circumstances such as additions to the length of line opened, additions to rolling stock in service or an increase in the cost of renewal work carried out during the period resulting from increased price of labour and materials.”

* * * * *

“ Provisions for Estimated Expenditure Liabilities.

(c) In determining the amount of revenue expenditure for the control period each Company must follow strictly the method which regulated the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913. Particularly should this principle be observed in setting up reserves for depreciation or provisions for maintenance of locomotives, carriages and wagons, permanent way, bridges, stations, etc.”

* * * * *

“ Arrears of Maintenance Work.

(e) In the event of the Companies being of opinion that arrears of normal maintenance work have arisen during the control period, His Majesty's Government have undertaken to consider on their merits any representations submitted to them, and, if necessary, a statement should be prepared at the end of the control period of any liabilities of this nature not included in the accounts prepared currently. (No such statement will be required in cases where provision is made for maintenance by carrying definite sums to a special fund in anticipation of actual expenditure.)”

These clauses definitely restricted the charges to be included in the Compensation Accounts in respect of renewals, reserves for depreciation and provisions for maintenance, but imposed no such rigid limitation in regard to repairs. It is desirable to indicate that there were adequate reasons for treating repairs and other maintenance charges differently in the Blue Book, in view of the fact that it is now claimed that in the absence of specific regulation to the contrary in the accounting instructions, the Companies are at large as regards expenditure on repairs, although, as will be shown hereafter, it was clearly understood from the commencement of the period of possession that normal maintenance, including repairs, was not to be exceeded except under abnormal circumstances, of which the onus of proof was upon the Companies.

It has already been stated that no attempt was made by the Government to regulate the normal day to day expenditure of the Companies, or to interfere in any way with their Directors and Officers in the management of the undertakings. The Companies were under an honourable obligation to prevent abnormal and unnecessary expenditure and to secure all proper economies. If this obligation was fulfilled, the extent of the expenditure on repairs to be undertaken by the Companies during the period of possession was no doubt regarded as being dependent on circumstances over which the Companies had no direct control; and if normal conditions continued, the expenditure on repairs would not exceed the normal expenditure. In these circumstances it was therefore in conformity with the general scheme that a rigid limit should not be set to the charges to be included in the Compensation Accounts in respect of repairs. In any case it was impracticable to limit repairs expenditure during

the short period contemplated when the first accounting instructions were under preparation.

The case of renewals, however, was different. Expenditure on renewals is capable of being estimated and equalised over a period of years, and it is the practice of most Companies to deal with their renewals expenditure in that way. In the absence of regulation it would have been possible for Companies to anticipate renewals, and so charge the Government with the cost of work that in the normal course would be performed at the Company's own expense after the period of possession. While it might be anticipated that no Company would deliberately take this course, it was obviously satisfactory, in order to prevent any possibility of misunderstanding or dispute, that the rights of the Companies in a matter of this kind, which was capable of regulation, should be placed beyond doubt in the accounting instructions.

For similar reasons it was desirable that reserves for depreciation and provisions for maintenance should be regulated. The amounts periodically set aside under these heads have no close relation to immediate circumstances; subject to the current revenue position they are within the control and discretion of the Directors of the Companies. It would clearly have been unsatisfactory to both parties if such charges had been left unregulated.

While war conditions lasted, there was little need for a close definition of the arrangement in regard to the limitation of normal maintenance expenditure, owing to the fact that the prevailing shortage of labour and materials imposed a physical limitation on the amount of maintenance work that could be undertaken. In the circumstances obtaining and contemplated at the time, the likelihood of any Company being able, during the period of possession, to perform maintenance work in excess of the normal was remote, and it does not appear to have occurred to the Board of Trade to provide for such a contingency in the accounting instructions.

As a consequence of the extension of control for two years after the war, conditions have arisen in which the Companies have been able to undertake maintenance work on a large scale, and as a result a number of Companies have already expended on repairs to rolling stock, after making up the whole of the arrears accumulated during the war, considerable amounts in excess of their 1913 quantum of repairs in that Abstract.

We are of opinion that to charge such excess repairs to Government is contrary to the underlying principle of the original Agreement. One of the first points to which attention was directed by the Board of Trade after the formula for the ascertainment of the compensation payable to the Companies had been settled, in August, 1914, was the possibility that Companies might take advantage of the position, to repair and renew their plant and equipment to an abnormal extent, and so improve their undertakings at the expense of the State. The President of the Board of Trade personally represented this danger to the Railway Executive Committee, who addressed him in the following terms on the 9th August, 1914 :—

“ We understand from the statements you made to us to-day that there is some apprehension on the part of the advisers of the Government that advantage may be taken by some Companies of the settlement provisionally come to with the Government as to the basis of compensation under Section 16 of the Regulation of Forces Act, 1871, to spend abnormal sums out of revenue on the maintenance and renewal of their lines and stock.

“ I have to say that while the Executive Committee cannot believe that any Company would be capable of acting in such a manner, they have from the first regarded it as an obligation of honour to protect the Government against the possibility of such an event, and they had before your visit already taken steps to safeguard the position of the Government in this respect.”

On the 13th August, the Executive Committee issued to the controlled Companies a Circular Letter containing the following passage :—

“ Then, again, questions may arise as to the amount to be expended on the maintenance and renewal of way and works, or rolling stock. Under these heads it will not be open to a Company to include in its working expenses any greater sum than is required to maintain its works and plant in an efficient condition, including due allowance for renewals, and if the expenditure of any Company upon any item of maintenance exceeds the corresponding figure in the previous year, the Government will, no doubt,

in the absence of special justification, expect it to be shown that the additional expenditure was rendered necessary by their requirements, or by the exceptional character or quantity of the traffic carried during the period of Government control. This point has been definitely raised by the Treasury, and the Executive Committee have had no hesitation in giving an assurance, on behalf of all the Companies taken over, that no unfair advantage will be taken of the present situation in connection with the renewal of works or plant."

In view of this clear assurance given by the Railway Executive Committee to the President of the Board of Trade, and conveyed to the Railway Companies, which, it will be observed referred to maintenance expenditure generally, and made no exception in the case of repairs, we are of opinion that it was a condition underlying the original Agreement that the Companies' maintenance charges during the period of possession, under all Abstracts, including both repairs and renewals, should be limited to the 1913 quantum, except in special circumstances, of which the onus of proof is upon the Companies.

The object the parties had in view, in formulating the original Agreement, was to guarantee to the Companies their normal net receipts. "Normal net receipts" have been defined as the net receipts of 1913, and the Companies have thereby been guaranteed, throughout the war, the net receipts of the most favourable year in their history, a year in which there can be little doubt that abnormal sums were spent and provided on account of maintenance. In these circumstances we are of opinion that the standardisation of the 1913 quantum of maintenance as a maximum for normal maintenance during the period of possession is to accord the Companies generous treatment. It is true that abnormal maintenance charges in 1913 reduced *pro tanto* the guaranteed standard of net receipts. The Companies would, however, receive a considerable benefit from any such abnormal charges in 1913, in so far as corresponding expenditure during the period of control may be allowed on the basis of increased prices.

It may be contended that it is impossible for Railway Companies to restrict their maintenance expenditure to a particular figure, owing to the fact that, in order to carry out their statutory obligation to keep their undertakings maintained at a standard compatible with public safety, they may be under the necessity in any particular period, of performing maintenance work in excess of normal. For this reason, it would certainly be impracticable rigidly to restrict a Company's maintenance expenditure in respect of a particular short period. The standardisation of a normal year's maintenance over a period of seven years, however, should suffice to enable the Companies to meet any variations in the regularity of their normal maintenance that may have arisen during the period.

In view of the clearly expressed conditions of the original Agreement, we are unable to admit the contention that the Companies are at large as regards repairs, and we are of the opinion, based on the evident intention of the parties in 1914, and on the view we have formed of the equities of the case, that the Companies have no reasonable claim to charge against the Government, in respect of normal maintenance during the period of possession, any sum in excess of their 1913 quantum of maintenance, *i.e.*, an amount, proportionate to the period, corresponding to the amount charged against working expenses in their accounts for the year 1913, with appropriate additions in respect of the increases, as compared with that year, in the cost of labour and materials and in respect of the maintenance of additional capital assets subsequently brought into use. Any expenditure in excess of an amount so calculated should be regarded as abnormal maintenance, which may be chargeable against the Government, in whole or in part, under the Agreement as to Abnormal Wear and Tear.

We understand there is no difference of opinion as to the liability of the Companies themselves to bear the 1913 cost of any excess renewals performed, but by the application of accounting methods adopted when the possibility of excess renewals arising was not contemplated, it has come about that charges in respect of the additional cost of excess renewals have recently been included in the Account of Net Receipts and the question of disallowing such charges has been under the consideration of the Government Accountant and the Ministry of Transport. Whatever may be the accounting questions involved in the disallowance of these items, we are satisfied that there is no justification for charges against the Government in respect of excess renewals, unless they represent the making good of abnormal wear and tear due to Government control.

A number of Companies are already in excess in Abstract B—that is to say, have not only overtaken all the arrears of maintenance of rolling stock accumulated during the War, but have carried out, and charged to the Government, a greater quantity of maintenance work than is represented by their expenditure and provision in 1913, standardised, with due allowance for increasing prices, over the period of control. We are informed that a number of these Companies are continuing to incur, under the heading of repairs to rolling stock (which includes partial renewals), expenditure largely in excess of their 1913 expenditure, equated to current prices.

We recommend,—

that charges for maintenance in excess of the 1913 quantum appearing in the Companies' claims now under examination, or hereafter submitted, should not be allowed;

that Companies to which payments in respect of such excess charges have already been made should refund the amount of the excess;

that any Company claiming to have incurred expenditure on making good abnormal wear and tear should substantiate its claim in accordance with the conditions hereafter indicated (Chapter III, §4).

Current
Payments
on Account
of Arrears
of Main-
tenance.

2. In October, 1914, the Railway Executive Committee represented to the Board of Trade that in consequence of locomotive and wagon shops having been placed at the disposal of the War Office for the manufacture of stretchers and general service wagons, renewals and repairs to railway plant, the cost of which would under the Agreement have been currently borne by the Government, were being postponed; it might therefore be necessary sooner or later to include in the Companies' claims against the Government sums to cover the cost of the deferred work which would have to be overtaken.

The following clause, in which the liability of the Government to make good arrears of maintenance work is admitted in general terms, was included in the first Memorandum of Instructions for the preparation of claims under the Agreement (Blue Book), issued to the Companies in March, 1915.

“ Arrears of Maintenance Work.

(e) In the event of the Companies being of opinion that arrears of normal maintenance work have arisen during the control period, His Majesty's Government have undertaken to consider on their merits any representations submitted to them; and, if necessary, a statement should be prepared at the end of the control period of any liabilities of this nature not included in the accounts prepared currently. (No such statement will be required in cases where provision is made for maintenance by carrying definite sums to a special fund in anticipation of expenditure.)”

In the summer of 1915 the Railway Executive Committee submitted that in view of the amount of war manufactures being undertaken by the Committee it was inexpedient that the method of dealing with arrears of maintenance should be left in abeyance until the end of the control period, and proposed that the amount of the arrears should be estimated and brought into account month by month. It was suggested by the Executive Committee that the expenditure of 1913 might fairly be taken as the basis of calculation, and that the amount to be charged should be the amount by which the 1914-1915 expenditure, reduced to 1913 prices, should fall short of the 1913 expenditure, plus an addition of 12½ per cent. up to 31st December, 1915, in respect of the increase in prices as compared with 1913.

After consulting the Government Accountant as to the propriety of the proposed percentage addition, the Board of Trade agreed, in August, 1915, that payments, calculated in the manner suggested, should be made currently in respect of arrears of repair and renewal of rolling stock. In September, 1915, the arrangement was extended to arrears of repair and renewal of permanent way, the same percentage addition being allowed in respect of the period to 31st December, 1915.

The payments made to the Companies under this arrangement were final transactions, and no liability remained with the Government in respect of the ultimate cost of carrying out the deferred work. In such circumstances, the contingent risks being borne by the Companies, it was reasonable that current payments should be made and that the Companies should enjoy the interest realised from the investment of the funds accumulated.

In 1917, however, when the question arose of fixing a new percentage addition to apply in respect of the year 1916, the Railway Executive Committee suggested that instead of final payments being made at a rate based on the prices prevailing in the year in which the arrears arose, which might be greater or less than those at which the deferred work would eventually be executed, the payments should be treated as payments on account, and a final settlement made when the work came to be carried out.

Agreement on this basis was ultimately reached in June, 1917, and payments on account have been made, at 115 per cent. of 1913 prices, in respect of all arrears accrued since the commencement of the period of possession.

It would clearly have been open to the Government, in agreeing to this change of plan, to cease making payments to the Companies currently in respect of arrears of maintenance. The Companies were now relieved of all liability for the cost of making good deferred work, and there was no reason why they should realise the interest on the accumulated funds. The point was considered by the Treasury, and the decision of that Department was conveyed to the Railway Executive Committee in the following terms:—

“ 6. For obvious reasons My Lords would have preferred to make no further payments on account, deferring settlement until the Companies were themselves called upon to defray the expenditure. The Companies have no alternative but to invest the money paid to them on account; and the interest on such investments is credited to a General Interest Account ‘ below-the-line ’ and not to Revenue, so as to reduce the compensation payable under the guarantee.

“ 7. My Lords are, however, satisfied that the claim of the Companies to this interest cannot be lightly dismissed. While it is true that increased running expenses, due to postponement of repairs, etc., fall upon the Exchequer through the operation of the Guarantee, the increased amount of repairs, due to progressive deterioration and employment of rolling stock which would, normally, have been scrapped, falls upon the Companies, the compensation for arrears being based upon the 1913 standard. Further, some appreciable period must necessarily elapse between the time that Companies actually meet their current payments for working expenses or special works for Government Departments and the time they receive repayment (in the monthly advance of compensation or otherwise); and the cost of providing working capital during that interval is not chargeable against the Exchequer.

8. After full consideration My Lords feel it would be inequitable, if not indeed impolitic, to cease making payments on account of arrears.”

This decision was probably a reasonable one in the light of the circumstances obtaining and contemplated at the time, particularly having regard to the fact that at that date the annual receipts under the head of “ General Interest ”, included below-the-line, did not exceed the amount enjoyed by the Railway Companies in the year 1913. From that date, however, the aggregate annual receipts from General Interest tended rapidly to increase, and we are of opinion that the advantage to the Companies from the decision has in consequence more than offset the obligations it was designed to meet, and has been a substantial concession in addition to the guaranteed net receipts.

In all the circumstances we do not propose any retrospective adjustment of the arrangement. We are of opinion, however, that any justification for current payments on account of arrears of repairs has long ceased to exist, and that such payments should be discontinued.

Furthermore, we are unable to find any sufficient reason for continuing payments to the Companies, in respect of the additional cost of making good arrears of maintenance, while they are in possession of large funds, approximating to £40,000,000, already paid to them on account of the Government’s liability.

We accordingly recommend that the Companies should utilise the funds already paid to them on account of arrears of maintenance, in defraying the whole cost of overtaking deferred work, before receiving further payments on account of the additional cost of arrears overtaken.

3. The statement has repeatedly been made that it was an underlying principle of the original Agreement that the Railway Companies’ undertakings should be handed back to them at the end of the period of possession in the same condition as they were in at the commencement.

Outstanding Liability in respect of Arrears of Maintenance.

It is a reasonable inference from the original Agreement that the Companies were thereby guaranteed their standard net receipts in full, over and above the expenditure they would themselves have incurred, in the absence of Government control, and any abnormal expenditure to which they might be put in meeting the special requirements of the Government. We can find nothing, in the circumstances surrounding the negotiation of the original Agreement, to support the contention that the Government undertook an obligation to meet expenditure on maintenance that in the absence of Government control the Companies would not have been able to carry out, or to protect the Companies against any decline in the condition of their undertakings that might result from circumstances affecting Industry as a whole.

The Companies have contended that " the broad principle underlying the arrangements between the Government and the Railway Companies is that the Railways shall be maintained at the cost of the Government during the period of control, and handed over to the Companies at the end of that period in the same condition physically, so far as possible, as they were in at the commencement—neither better nor worse" We cannot find that the Government has at any time admitted that such an obligation was an inherent term of the original Agreement, nor do we think that such an obligation, with all its possible implications, ought to be admitted.

It may be that the carrying out of the Agreement will result in the undertakings being brought to their 1914 standard of maintenance and efficiency without any diminution of the net receipts guaranteed to the Companies, but it would obviously be quite impracticable to ascertain whether the condition of the undertakings was the same, or even substantially the same, at the beginning and end of control, and it does not appear that such a criterion could have been intended as a test of the fulfilment of the Government's obligation. It certainly would be impossible to apply such a test in regard to the physical maintenance of the undertakings.

The obligation entered into by the Government was to secure to the Companies, for the period of possession, a definite quantum of net receipts over and above the charges properly debitable, in respect of the period, to certain of their accounts. In regard to maintenance, this was an obligation to bear current expenditure necessarily incurred, and provisions properly made, and in so far as normal repair and renewal work, deferred during the period, was subsequently executed, to meet the cost of such work, when executed, less any portion of such cost already provided.

When it was decided that payments should be made to the Companies, currently, on account of the Government's liability to meet the cost of deferred maintenance subsequently made good, it was necessary to provide a means whereby to measure the quantity of work deferred. The Arrears of Maintenance Formula was devised for this purpose, and current payments have been made on the basis of the " arrears " shown by this measure.

It seems to have been assumed that the Government is under liability to meet, after the period of possession, the cost of executing the quantum of maintenance work shown by the formula as being in arrear at the end of the period, and the suggestion has been made on behalf of the Railway Companies that a year from the termination of control would be a convenient time at which to liquidate this liability.

The Government does not appear to have accepted this suggestion, or to have admitted at any time that their liability extended beyond meeting the cost of deferred works requiring to be executed, when they come to be executed. Indeed, the admission of further liability would conflict with the express principle of the original Agreement that any economies effected during the period of possession would enure to the benefit of the Government.

The arrears remaining on 30th September, 1920, are estimated at £36,600,000, on the basis of 1913 prices. Payments have been made currently, on account of the ultimate cost of carrying out the deferred work, amounting approximately to £42,000,000. The outstanding liability, on the basis of these figures, is estimated at £68,000,000, if executed at current prices. It may be assumed that no further arrears will arise during the remainder of the control period, and that the ascertained arrears at 30th September, 1920, represent the limit of the Government's possible outstanding liability.

It appears from Tables which have been prepared for us (Appendix C) that this outstanding liability represents an average annual deferment, during the 5 years 1914-1919, of 21·2 per cent. of a normal year's maintenance in the case of Abstract A, and 15·8 per cent. in the case of Abstract B, or 18·2 per cent. for the two Abstracts taken together; while if similar calculations be made

on the basis of each Company's actual expenditure in 1913—eliminating transfers to and from provision funds—and proportionate reductions be effected in the ascertained arrears, it will be found that the average annual deferment, over five years, represented by the outstanding liability (thus adjusted), is—Abstract A, 19 per cent; Abstract B, 12 per cent.; total, 15 per cent.

If allowance be made for the artificial inflation of the ascertained arrears, indicated in Appendix B, these percentages will be still further reduced.

It would therefore appear that if the Companies be regarded as a whole, the quantum of deferred work for which payment has not already been made is a relatively small proportion of the Companies' normal annual maintenance. This proportion varies as between individual Companies, but in the case of the majority of Companies it is below the average of the Companies as a whole.

It will be evident that in the circumstances under which the Companies were working during the War a considerable amount of the normal maintenance work that was not undertaken was of a kind that, having been deferred, will never require to be carried out.

Shortly after the outbreak of war, train services were cut down, and as time went on further curtailments took place, both in passenger services and in goods and mineral traffic. At the same time reductions were effected in the speeds of trains. The consequent saving in wear and tear of plant and equipment caused a reduction in normal maintenance expenditure, which, though it will never have to be made good, is an element of the ascertained arrears.

There can be no doubt that, owing to shortage of labour and materials, refinements were cut down to a minimum, and only immediately essential works carried out. Much of the less important work that was deferred need not now be carried out. This reduction of ordinary maintenance chiefly affected the comfort of the railway employees and the public; in no sense can it be held to have detrimentally affected the property of the undertakings. The money that was not spent in the ordinary cycle of operations, and does not now require to be spent, has been saved. This saving should accrue to the Government. Through the operation of the Arrears of Maintenance Formula it is included in the ascertained arrears.

Under the stress of war conditions, the ordinary maintenance practice of the Companies, with its undoubted tendency to err on the side of safety, had to give way to the necessity of taking the utmost out of plant and equipment. A longer life was demanded from railway property; cleaning of track, roadways and yards, cutting of grass slopes, maintaining fences, and many other similar classes of work, were no doubt cut down to a minimum. In so far as the result was discomfort to the public, it was patiently borne; in so far as it involved a reduction in the standard of safety, the financial risks were the burden of the Government.

Many branches and stations throughout the country were closed, and reduction in maintenance expenditure resulted, which to a considerable extent does not now require to be made good.

All such reduction of normal maintenance, however, has operated to swell the ascertained arrears, and the Companies have received payments, throughout the control period, at 115 per cent. of the 1913 cost of carrying it out. To the extent to which such arrears do not require to be carried out, the payments are in excess of the Government's liability.

We recognise that the amount of deferred work that will not require to be carried out is greater in the case of the maintenance of Permanent Way and auxiliary works than in that of Rolling Stock, and that there are circumstances—such as the alleged reduced efficiency of labour, and the cost of increased and uneconomic repairs resulting from the postponement of normal maintenance work—of which account is not taken in the Arrears of Maintenance Formula, which, to this extent, is disadvantageous to the Companies. It would appear, however, that the artificial arrears produced by the formulæ more than offset any understatement of arrears due to these circumstances, and it must be remembered that it was to provide, *inter alia*, for the cost of increased and uneconomic repairs that the Government agreed, in 1917, to the retention by the Companies of interest on amounts paid currently on account of Arrears of Maintenance.

It is obviously impossible for this Committee to assess the amount that may be due to or from any Company in respect of Arrears of Maintenance after all these various considerations have been taken into account, and we doubt whether an accurate assessment is practicable at this date. The matter would appear to be essentially one for compromise.

We are of opinion, however, that in view of—

- (a) the relatively small proportion of normal maintenance work represented by the outstanding liability in respect of the arrears ascertained by the formulæ;
- (b) the fact that the ascertained arrears appears to be to a considerable extent artificially inflated;
- (c) the fact that much normal maintenance work was deferred during the war and will not now require to be carried out,

there are strong *prima facie* reasons for thinking that many of the Companies have already been paid more than sufficient to enable them to meet the deferred expenditure that will have to be made good.

We therefore recommend that no further payments be made in respect of the financial arrears shown by the formulæ, except to the extent to which it may be possible for Companies to show that the amounts already paid to them are insufficient to provide for the making good of physical arrears that may actually require to be overtaken.

Abnormal
Wear and
Tear.

4. The underlying object of the Agreement of August, 1914, was to guarantee the Companies their "normal net receipts." That this was the intention of the Railway Executive Committee, to which the Government assented, is clearly indicated in the memorandum* in which the former supported their proposed amendment of the original draft formula put forward by the Board of Trade.

"Normal net receipts" was immediately defined as the net receipts of 1913 (less a deduction based on the percentage decline in net receipts shown by the accounts of 1914), and it was generally understood by the parties that the "normal net receipts" were to be based on normal expenditure, and that normal expenditure was not in ordinary circumstances to exceed 1913 expenditure.

In the Circular Letter issued by the Railway Executive Committee on 13th August, 1914, already quoted, the Companies were informed that

" If the expenditure of any company upon any item of maintenance exceeds the corresponding figure in the previous year, the Government will, no doubt, in the absence of special justification, expect it to be shown that the additional expenditure was rendered necessary by their requirements or by the exceptional character or quantity of the traffic carried during the period of Government control. This point has been definitely raised by the Treasury. . . . "

In agreeing to the first Memorandum of Instructions for the preparation of claims to arrears of maintenance, Abstracts A. and B. (Yellow Book, issued 25th January, 1916), the Government formally admitted their liability, in respect of normal maintenance, for the 1913 quantum of maintenance, whether executed during or after the period of control, and in addition undertook to pay the cost of making good any abnormal wear and tear to which the permanent way or rolling stock of a Company might be proved to have been subjected during the control period.

The clauses in the accounting instructions relating to abnormal wear and tear are as follows:—

" *Additional Expenditure for Abnormal Wear and Tear.*

- (f) Any amount included in the expenditure, representing additional costs incurred as the result of abnormal wear and tear to which the permanent way or rolling stock of a Company has been subjected during the control period, should be deducted† from such expenditure. Owing to the varying circumstances of the Companies, it is impossible to stereotype a method for arriving at the deductions referred to in this paragraph. Each Company, therefore, who makes such a deduction will be required to produce sufficient evidence, accompanied by a report from the Chief Executive Officer concerned, to satisfy the Government Auditor that the abnormal wear and tear so deducted has taken place, and that the expenditure has been incurred during the control period in making the same good."

* Appendix 1, p. 5, Document 4, enclosure,

† *i.e.* deducted from the expenditure of the year, before comparison with 1913 expenditure for the purpose of arriving at arrears.

“ Abnormal Wear and Tear.

7. It should be noted that the claims to be made under these Instructions do not take into account the abnormal wear and tear to which the permanent way and rolling stock of certain Companies may have been subjected during the control period, so far as such abnormal wear and tear has not been made good during that period, and that any Company who is in a position to substantiate a claim under this head should make its claim independently of the claims submitted for arrears of work.”

The documents are indefinite as to the nature of the evidence to be adduced in support of claims in respect of Abnormal Wear and Tear, and we understand that no claim has yet been passed. The outstanding liability has been estimated* by the Government Accountants at £40,000,000, but we are informed by them that this is an estimate on which little reliance should be placed.

We recommend that any claims that may be put forward in respect of Abnormal Wear and Tear should be substantiated on the following grounds:—

- (a) that the abnormal wear and tear has been due to Government user of the Company's undertaking;
- (b) that the making good of the abnormal wear and tear forming the subject of the claim has not been counterbalanced by reduced maintenance expenditure owing to subnormal wear and tear of other portions of the Company's undertaking in the same or another accounting period;
- (c) that the amounts received or receivable by the Company in respect of normal maintenance are insufficient to provide for the making good of the abnormal wear and tear forming the subject of the claim, in addition to normal maintenance.

In the event of any claim in respect of abnormal wear and tear being admitted, the cost of making good should be discounted by the present value of any saving in repairs and renewals that may result from the earlier renewal of the asset, and all betterment should, of course, be excluded.

CHAPTER IV.

SUPPLEMENTARY CLAUSES TO THE AGREEMENT.

1. In the autumn of 1915 the Railway Executive Committee raised a number of questions, not provided for by the terms of the original Agreement, which called for settlement in view of the prospect, then realised, that the period of the War would be more protracted than had been anticipated. General.

After considerable discussion between the Railway Executive Committee and the Treasury, agreement was reached in regard to a number of the questions raised, and the terms agreed upon were recorded in a document entitled, “ *Supplementary Clauses to Agreement with His Majesty's Government.*” This document was issued to the Companies by the Executive Committee on 14th November, 1916, and is known as the Pink Book. (*Vide* Appendix I, p. 89.)

The Supplementary Clauses dealt with the following matters:—

- I. *Capital Expenditure.*
- II. *Stores.*
These items, which were the most important, form the subject of §§2 and 3 of this Chapter.
- III. *Allowances to Dependants of Men serving with His Majesty's Forces.*
It was provided that as from the commencement of control the cost of such allowances, made in accordance with instructions issued, should be borne by the Government.
- IV. *Damage to Railway Property by Bombardment or Hostile Aircraft.*
The Government agreed to bear the cost of making good such damage (except in the case of property the rent of which was enjoyed by the Company below-the-line), whether made good during or after control, and to indemnify the Company in respect of (above-the-line) property held under lease or agreement. It was provided that any insurance premiums already paid by the Companies should be borne by the Government, and that the Companies should give credit to the Government for any sums received under policies of insurance.

V. *Charges for Services rendered by Railway Companies to the Government.*

We have already referred to the general bearing, on the negotiation of these Supplementary Clauses, of the question of payment for Government traffic and the disposal of surplus receipts. (Chapter II, §7.)

This Clause incorporated a Schedule specifying the particular classes of traffic in respect of which direct cash payments should, and should not, be made to the Companies by Government Departments. The provision for cash payments in certain cases did not conflict with the right of the Government to free carriage, and to the retention of surplus receipts; the objects in view were chiefly to prevent the extravagant use of railway services by Government Departments and to secure that payment should be made for below-the-line services and accommodation—which were not covered by the guarantee.

VI *Adjustment of Accounts.*

This Clause provided that each Company should give an undertaking to repay to the Government any sums which, on a final settlement of the accounts of any period ending 31st December, might be found to have been received or retained in excess of the amounts due, together with interest at 5 per cent. from the 1st March following the close of such period. This provision was rendered necessary by the fact that payments were made on monthly statements, rendered by the Companies, which were not, as a rule, verified, the final settlement being made after examination of annual accounts.

Interest on
Capital Ex-
penditure.

2. Towards the end of 1915 the Railway Executive Committee represented to the Treasury that owing to the prolongation of the period of control, many Companies were suffering hardship, by reason of the fact that the Agreement contained no provision regarding Capital Expenditure incurred by the Companies during the period. It was pointed out that the Government were benefiting to the extent of any additional revenue or saving resulting from such expenditure, while the interest or dividend on the capital raised was a charge upon the Companies.

It would have been in accordance with the spirit of the original Agreement that such additional revenue or saving should be excluded from the calculation of net receipts during the period of control, on the ground that it was not included in the accounts of the standard year. This was not practicable, however, and the alternative suggestion was made by the Railway Executive Committee that the position should be met by the payment to the Companies, in addition to the guaranteed net receipts, of interest, at an agreed rate, and accruing from appropriate dates, on capital expenditure on certain classes of plant and equipment.

Agreement on this basis was eventually reached, and clauses recording the arrangement agreed upon were incorporated in the Pink Book.

The main features of the arrangement were as follows:—

- (1) Interest to be allowed upon all sums, properly chargeable to capital and actually so charged, expended upon—
 - (a) works (including land), rolling stock and plant brought into use since 31st December, 1912;
 - (b) mineral support acquired since 31st December, 1912, in connection with lines in use during the period of control.
- (2) Interest to be at the rate of 4 per cent. per annum for the whole period of control.
- (3) Interest to accrue from the date on which the works, etc., are brought into use, or from 5th August, 1914, in the case of works brought into use before that date, appropriate adjustments being made in respect of works brought into use during the standard year (1913) which affected the net receipts during a portion of that year.

In May, 1919, the Railway Executive Committee represented that while new capital expenditure on a considerable scale was necessary in connection with post-war reconstruction, the Companies felt themselves unable to incur such

expenditure under the arrangements then existing. The conditions of the Agreement as to Interest on Capital Expenditure were regarded by the Companies as unfavourable; they were disinclined to undertake capital expenditure, owing to the prevailing high rates of wages and prices of materials; and they were unwilling to embark on development of their undertakings, in view of the uncertainty as to how they would be recouped for the expenditure involved, in the event of the Government deciding to take over the Railways. To meet this position the Railway Executive Committee suggested that any new works that might be necessary should be financed by the Government.

The Government rejected the proposal that they should provide funds for the necessary development of the undertakings, in view of the considerable funds already in the possession of the Companies. They recognised, however, that the rate of interest allowed on capital expenditure under the Agreement of 1916, viz., 4 per cent., was less than the rate currently obtainable by the Companies on investments, and it was agreed that interest should be allowed on approved capital expenditure, incurred after 1st May, 1919, on new works or additional rolling stock, at the rate of 5 per cent. instead of 4 per cent., and that the interest should accrue, not from the date on which the works were brought into use, but from the date when the capital expenditure was incurred. At the same time an assurance was given to the Companies that "in the event of their undertakings being acquired by the Government, the Companies shall neither be financially prejudiced nor financially advantaged by reason of having incurred capital expenditure under the present arrangements."

Apart from the additional concessions made to the Companies in 1919, which were probably unavoidable in the circumstances then obtaining, the arrangement as to interest on capital expenditure is a reasonable extension of the original Agreement as to Net Receipts. It provides, however, an example of the one-sided character of many of the Agreements entered into by the Government during the war.

It was specifically provided, in the agreed Clause inserted in the Pink Book, that in calculating the amount of capital expenditure on which interest was to be allowed, a deduction should be made for the value of works replaced. No such provision was made, however, in the case of works displaced and not replaced. The object and effect of displacing works is no doubt, as a rule, to save expenditure on assets from which there is no longer an adequate return, and in such cases it is reasonable that allowance should not be made for the value of the works displaced in calculating the amount of capital expenditure ranking for interest. In the event of displaced works being realised, however, the proceeds are either devoted to new capital expenditure in another direction, in which case the Company receives interest on the amount from the Government, or they are invested, and the interest realised accrues to the Company below-the-line.

We are of opinion that it is equitable to regard the whole of the assets of which possession was taken in 1914 as remaining in the possession of the Government throughout control, and that in the event of any such assets being realised, the revenue derived from the proceeds, in whatever form, belongs to the Government.

A substantial case of such realisation of capital assets employed in the base period, without adjustment either of the standard net receipts or of the additional capital expenditure ranking for interest, is that of steamships taken over by the Admiralty. As these steamships contributed to the net receipts of 1913, no payment was due to the Companies in respect of their use by the Government during the period of control. A special Agreement was entered into by the Admiralty, however, under which payments have been made to the Companies in respect of the cost, less accrued depreciation, of replacing ships lost or not returned. Under this Agreement the Companies have received sums amounting to approximately £2,500,000, and the Companies have presumably invested the amounts, and enjoyed the interest realised thereon below-the-line.

As the standard net receipts of the Companies concerned have not been adjusted in respect of the sums paid by the Admiralty, the Government is in the position of continuing to pay rent for property which it has bought. The adjustment of net receipts is probably not a practicable course, and we are of opinion that the position can only be equitably met at this stage by the Companies concerned paying to the Government the amounts realised by them by way of interest on the sums received from the Admiralty, or by adjustment, in the Companies' claims in respect of interest on capital expenditure, of the amounts

rinking for interest, in the manner adopted in the case of capital assets replaced.

We draw attention to the arrangement under which Companies are enjoying revenue, in addition to the guaranteed net receipts, from assets that were revenue producing in the standard period and have since been realised, and we recommend that the matter be taken up with the Companies with a view to an adjustment by whatever may be considered the most convenient method from the accounting point of view.

Replace-
ment of
Stores.

3. The Supplementary Clauses to the Agreement, incorporated in the Pink Book, issued November, 1916, contained the following provision:—

“ At the end of the period of Government control, a cash payment to be made by the Government to each of the controlled Companies equal to the difference between (a) the book value of the stores in stock at the 5th August, 1914, and (b) the value of the same quantities of similar stores calculated—

- (1) as to the extent those quantities are in stock at the end of the control period, at the book values then ruling;
- (2) as to the shortage in the quantity at the end of the control period as compared with the quantity at the beginning, at replacement prices.

“ The replacement prices to be agreed between the Treasury and the Railway Executive Committee as fairly representing the prices at which the shortage could be made good, having regard to quoted market prices at the end of the control period, the probable movement of prices and the other circumstances of the case. Any amounts already received by the Companies for replacement value of material used on work done for the Government must be brought into account when fixing the amount to be allowed under this Clause.

“ Regulations in regard to the calculation of prices, and definition of stores, and generally as to giving effect to this Clause, to be agreed between the Government Accountants and the Railway Executive Committee.”

The effect of this provision, if carried out, would be that the Companies would hold, at the end of the period of control, a stock of stores equivalent to the stock held in 1914, and standing in their books at 1914 prices.

It should be explained that it is the normal practice of the Companies to debit the cost of stores, when purchased, to a Stock Account, and, as stores are issued for use, to charge them to working expenses at the average price at which similar stores, held in stock on the date of issue, have been purchased. This practice has been continued during the control period, in conformity with the general principle of the original arrangement that in preparing its accounts for the purpose of arriving at net receipts each Company should follow strictly the practice which regulated the preparation of its accounts in 1913.

As a result of this practice having been followed in a period of rising prices, the Companies have been under the necessity of replacing stores issued from time to time, at prices higher than those charged to working expenses (and borne by the Government) in respect of the stores issued, and the difference in cost on replacement has been borne by the Companies. In other words, the Companies have themselves found the additional working capital required to finance their stores at the increasing prices ruling during the control period.

In 1916 it was represented to the Treasury, on behalf of the Railway Companies, that in consequence of their practice of charging stores to working expenses at average prices, instead of replacement prices, the Companies ran the risk of finding themselves burdened at the end of the control period “ with stocks of materials, etc., purchased during the control period at inflated prices.”

At the commencement of control no question was raised as to the propriety of charging stores at average prices and not at replacement prices, and, indeed, from the standpoint of the net receipts Agreement, it would clearly have been inequitable to charge at replacement prices. If these were higher than average prices the Companies would thereby have received during the control period a profit on their stores, in addition to the guaranteed net receipts, while if they were lower, the Companies would have lost money by the transaction, which certainly was not the intention of the Agreement.

So far as we are aware it has never been suggested that the Companies should alter the practice of charging stores out at average prices, but it has been realised

that if as a matter of fact stores had been charged out, not at average prices but at replacement prices, the Companies would have been secured against finding themselves at the end of the period with a stock of stores standing in their books at inflated war prices. Arguments have accordingly been put forward in support of the view that the Companies would have been justified in charging out stores at replacement prices.

It is suggested, for instance, that this course would have been justified on the ground that it was the intention of the original Agreement that the effects of the war should be "blotted out," as far as the Companies were concerned, during the period of control. We find considerable difficulty in dealing with loose phrases of this kind that have been grafted on to the original Agreement in support of particular interpretations of it. To a certain extent it may be true that as a consequence of the Agreement the effects of the war on the Companies have been "blotted out" during the period of control, but we cannot admit that it was the intention of the Agreement to relieve the Companies of all the burdens arising from war conditions. It was not the intention, for instance, and it is not the effect, of the Agreement, to relieve the Companies of the burden of depreciated money values in respect of their pre-war funds.

The extent to which the Companies are relieved, or may claim that they should be relieved, of such burdens, is commensurate with the ambit of the original Agreement itself, and we are of opinion that it is not possible so to construe the original Agreement as to admit of the charging out of stores at prices other than average prices, or to provide for the "blotting out" of the effects of the war on the Companies' Stores Stock Accounts, which are outside the scope of the original Agreement. That Agreement had reference to the revenue position of the Companies and was designed to secure to them a defined quantum of net receipts; it was not concerned with the capital position of the Companies in any way, and if one of the effects of the war was to necessitate the provision by the Companies of additional working capital for the undertakings, that effect was not one that was "blotted out," or intended to be "blotted out," by the Agreement. In the case of the additional working capital which the Companies have been under the necessity of finding to enable them to pay increased wages, it has never been suggested that there was any case for calling upon the Government, during the control period, to provide the additional funds required, nor is it contended that the Agreement as to Net Receipts places any obligation upon the Government to reimburse the Companies with the amount of such additional working capital at the end of the period.

The increased cost of labour and the enhanced value of stores appear to us to be on precisely the same footing from the standpoint of the Net Receipts Agreement, and we regard the proposition that Companies should be provided, at the expense of the State, with the additional working capital required to enable them to carry their 1913 stock of stores at enhanced prices, whether this be effected by charges for stores being raised at replacement prices, or by any other means, as entirely irreconcilable with the purpose of the original Agreement.

That the Companies are entitled to interest on any additional working capital they may provide during the control period is a reasonable application of the principle underlying the Agreement as to Net Receipts. It was to meet the Companies' right to such interest, *inter alia*, that the Government agreed to their enjoying the interest on accumulated arrears of maintenance funds.

A further contention put forward in support of the Supplementary Agreement in regard to Stores, and, incidentally, in support of the proposition that stores issued during control should have been charged out at replacement prices, is that the Companies would have been within their rights in locking up the whole of their stores on 5th August, 1914, and keeping them intact until the end of the period of control, leaving the Government to finance the stores required for railway working during the period. This process of argument avoids the difficulties that seem to be inherent in any attempt to justify the Stores Agreement by reference to the Agreement as to Net Receipts, and relies upon a particular interpretation of the Regulation of the Forces Act, 1871, under the provisions of which possession was taken of the Railways. It is contended that the property of which possession was taken in pursuance of that Act did not include stores, and that therefore the Companies could have locked them up.

The relevant terms of the Act are as follows:—

" the Secretary of State may take possession of any railroad and of the

plant belonging thereto For the purposes of this section
 " Plant " shall include any engines, rolling stock, horses,
 or other animal or mechanical power, and all things necessary for the
 proper working of a railroad or tramway which are not included in the
 word " railroad "

We do not propose to enter into a discussion of the legal question involved in the particular construction of this Section that has been indicated, beyond saying that *primâ facie* it would appear to be difficult to exclude stores from the category covered by the phrase " all things necessary for the proper working of a railroad."

Whatever may be the correct legal construction of the Act of 1871 in this respect, we are of opinion that the inclusion of stores in the undertakings of which possession was taken was an inherent condition of the Agreement guaranteeing net receipts, and a condition from which the Companies cannot equitably escape. The undertakings of which the net receipts were guaranteed were clearly running concerns, provided not only with operating plant and equipment, but with the working capital necessary to operate them. The working capital employed in the standard year contributed to earning the guaranteed net receipts, and it cannot reasonably be contended that it was open to the Companies to withdraw that working capital during the period of control, while continuing to enjoy the guaranteed net receipts in full.

The documents leading up to the Agreement as to Stores do not indicate with any certainty the reasons which, in the mind of the Treasury, were held to justify the arrangement when it was made. It appears to be clear, however, that the arguments by which the proposal was supported were not then based (as they have since been based) on the Agreement as to Net Receipts, but were directed to a position that it was anticipated would arise at the end of the control period. Indeed the question was raised, in the first place, in view of the fact that a particular Company had been required by the War Office to lay in a stock of coal largely *in excess* of anything they were accustomed to keep. The Agreement, however, has no reference to stores held by the Company in excess of their 1914 stocks; it provides, on the other hand, for the replacement of shortages and the payment by the Government of the enhanced value of stocks held, up to the limit of those held in 1914.

In either case, the possible loss against which the Companies were to be protected was a loss arising, not during, but after control, in consequence of their then holding stocks bought at inflated war prices.

In 1916, when the Stores Agreement was made, the big inflation of prices that resulted from war conditions had not yet taken place. It might reasonably have been thought at that time that the country was passing through a period of temporarily inflated prices, and that after the war there would be a comparatively rapid drop in prices to what was probably regarded as their normal level. Railway rates had not been raised at this time, and there is no reason to suppose that any permanent increase of rates was in contemplation. In such circumstances (and apparently only in such circumstances) the Railway Companies would, in the absence of any special arrangement as to stores, have suffered loss, at the end of control, by reason of their holding stocks of stores bought at inflated prices, which they would have, in effect, to sell to the users of the railways at normal rates. If the matter were so regarded by the Treasury, that Department may well have decided, although the original Agreement placed no obligation upon the Government to relieve the Companies of such loss, that it was nevertheless a loss which the Companies themselves should not be required to bear, and that it would be more convenient to meet the case by an Exchequer payment than by what would then have appeared to be the wholly impracticable course of raising railway rates temporarily, after control, in order to place the burden on the users of the railways, who, in strict principle, ought to bear it.

We have accordingly formed the opinion that the Stores Agreement was a concession made by the Treasury to meet a position that it was contemplated would arise at the end of the control period; that it was not an amplification of the original Agreement, guaranteeing the Companies their net receipts, and is essentially at variance with the principles of that Agreement.

The post-control conditions, the expectation of which may have justified the concession in 1916, will apparently not obtain on the termination of control, in view of the fact that the Companies' charging powers have now been placed on a level commensurate with current prices, and are presumably intended to cover the current cost of stores. If this be the case the Companies will not suffer the loss, in respect of stores bought at war prices, against which the

Stores Agreement was intended to protect them, and if the Agreement is carried out, the amounts paid thereunder, which are estimated at £20,000,000, will be clear profit to the Companies.

We accordingly recommend that the Stores Agreement be reviewed. In fixing the present charging powers of the Companies it is presumed that the current cost of stores was taken into account. Under the circumstances, therefore, as existing at present, there is no justification for the arrangement that the Companies should be recouped the cost of the increased stores held by them, at the end of control, by an Exchequer subsidy.

It should be added that a special arrangement was made in regard to stores purchased by the Companies, after the Armistice, in anticipation of normal requirements. (*Vide* Appendix I, pp. 139-141.)

CHAPTER V.

ESTIMATE OF OUTSTANDING LIABILITIES, ACCORDING TO THE INTERPRETATIONS WHICH MAY BE PLACED UPON THE AGREEMENTS.

The Railway Companies are at present unable to furnish an estimate of the claims they may put forward at the end of the period of possession. We understand, however, that these claims will fall under the following heads, and that the possible extent of the liabilities thereunder, so far as they can be estimated, on the basis of the interpretations understood to be placed upon the Agreements by the Companies, may be as indicated. These estimates have been prepared from data in the possession of the Ministry of Transport with the exception of that for Abnormal Wear and Tear, which was included in Command Paper 147/1919.

It should be clearly realised that these figures are merely estimates of the amounts the Railway Companies' claims might possibly reach. In the case of Arrears of Maintenance and Abnormal Wear and Tear the amount of the claims will depend upon the trend of prices, and to the extent to which prices fall, the claims would be lower than the figures shown, which are based on prices at 200 per cent. above pre-war level. In the case of Abnormal Wear and Tear the estimate is one upon which little reliance should be placed :—

	£
Arrears of Maintenance : Abstracts A and B	70,000,000
" " Other Abstracts	20,000,000
Abnormal Wear and Tear	40,000,000
Replacement of Stores	20,000,000

It is understood that the Companies may put forward additional claims, at present undefined, under the Regulation of the Forces Act, 1871. As we have indicated, we are of opinion that no such claims are admissible. (Chapter II, § 5.)

It is not possible to frame any reliable estimate of the amounts that may be payable to the Companies in the event of the Agreements being interpreted in accordance with our recommendations, but it would appear that the amounts will be reduced to an insignificant figure.

The above are claims that cannot be presented until the end of the period of possession : account must also be taken of the current liabilities of Government during the remaining months of control, if the Agreements continue to be applied on the basis of the Railway Companies' interpretation of them.

No estimate can be given of the reduction in these claims that would be effected by the adoption of our recommendations. If normal maintenance charges be not restricted to the 1913 quantum, however, the only limit to the liability of the Government in the case of those Companies who have either overtaken their accumulated arrears, or are able to overtake them before the end of control, is the limit of the Companies' ability to spend.

CHAPTER VI.

IRISH RAILWAYS.

The Order in Council under which possession was taken of the Irish Railways was dated 22nd December, 1916, and Government liability (with the exception of a liability previously undertaken in respect of War Bonus) commenced as from 1st January, 1917.

The nature and terms of the Agreements with the Irish Companies are practically identical with the British Agreements, but in regard to one or two matters the position is more clearly defined in the case of Ireland. One of these is the question of the limitation of normal maintenance to the 1913 quantum, in regard to which the Board of Trade addressed the Irish Railway Executive Committee in the following terms.

“ I am directed by the Board of Trade to state that in all the circumstances, they will not press for the inclusion of the New Clause on page 5 of the amended draft, on the understanding mentioned in your letter, namely, that no Company will be allowed to charge any Compensation Account Repairs in excess of 1913 without the direct consent of the Irish Railway Executive Committee or such other justification as might satisfy the Government Accountant.”

The Irish Companies, although not controlled until 1st January, 1917, were guaranteed net receipts on the basis of 1913.

CHAPTER VII.

FURTHER STEPS NECESSARY TO SAFEGUARD THE INTERESTS OF GOVERNMENT.

We have already referred, in Chapter II., to the arrangement, adopted at the commencement of the period of possession, for the investigation of the Companies' claims under the Agreement by an organisation of railway accountants set up by the Railway Executive Committee.

We are satisfied that this arrangement, although of great value to the Government, and the only arrangement possible at the time it was instituted, was not a satisfactory one when the war conditions which justified it no longer obtained. On the establishment of the Ministry of Transport, officials of the Ministry were associated to a limited extent with the railway accountants in the supervision and checking of the Companies' claims. We are satisfied that the super-imposition of this official check was not only desirable in itself, but has been justified by its results. The tendency of the railway accountants was naturally and properly to be guided by a strict reading of the various Accounting Instructions that were issued by the Railway Executive Committee from time to time. In some cases the literal application of these instructions produced results which were not in conformity with the underlying intention of the Agreements, and the effect of the official check imposed by the Ministry of Transport, though this check has been limited in extent, has been to bring the operation of the Agreements under comprehensive review from a detached standpoint. A number of questions have consequently been raised which in other circumstances would probably not have been raised.

We do not recommend that any attempt be made at this stage to impose a rigorous supervision and regulation of railway expenditure, or to subject the Companies' accounts to a full and adequate audit, but, in view of the approaching termination of control, we are of opinion that the official check already instituted should be continued, and that the responsible officers of the Ministry of Transport should be given such additional assistance as they may reasonably require, in order to enable them to deal adequately with the many questions that will necessarily arise in connection with the Companies' final accounts and claims.

CHAPTER VIII.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS.

Our principal conclusions may be summarised as follows :—

1. The character of the Government's " possession " of the Railways has, General. in the course of time, undergone a complete change. It began as a temporary control of traffic for purely military purposes, with a liability for compensation for purely military acts; it has developed into a comprehensive financial transaction entirely divorced from military considerations, covering the whole area of railway administration, and continuing long after the circumstances which originally justified it have ceased to exist. (Chapter II, §2.)

2. Possession was taken of the controlled Railway Companies under the provisions of the Regulation of the Forces Act, 1871; it was intended by that Act that the Companies should receive full compensation for loss or injury sustained in consequence of the exercise of the powers conferred by the Act on the Secretary of State for War.

When the original Agreement between the Government and the controlled Railways was concluded in 1914, it was the intention, and the expectation, of the parties that the Agreement should provide a just measure of the compensation intended by the Act of 1871.

Owing to circumstances not foreseen when the Agreement was made, the Companies have been completely protected against loss or injury arising during the period of possession, whether attributable to the operation of the Act of 1871 or not.

In view of the history of the negotiations leading up to the Agreement of 1914, we have considered whether we should recommend the revision of that Agreement with a view to the Companies being accorded compensation for loss or injury attributable to the operation of the Act of 1871, and no more. We have come to the conclusion, however, that in all the circumstances such a course is impracticable. (Chapter II, §5.)

3. The Agreement of 1914 guaranteed the controlled Railway Companies, collectively, the aggregate net receipts, shown in the Published Accounts of 1913, of the first seven items of Account No. 8 of the Statutory Accounts, less a percentage deduction. The subsequent Agreements were intended to be in the nature of interpretations and amplifications of the original Agreement, designed to carry out the underlying purpose of that Agreement in changing circumstances.

The underlying purpose of the original Agreement was that while the Companies were under obligation to exercise all possible economies, and prevent all unnecessary expenditure, the financial results to each Company during the period of possession should be the same as they would have been had the undertakings remained under the control of the Companies and the receipts and expenses of each railway had been the same as they were in the corresponding period of the previous year. (Chapter II, §14.)

4. When the original Agreement was concluded it was the intention of the parties that the compensation payable thereunder should be exhaustive of the Government's liability under the Regulation of the Forces Act, 1871 (Chapter II, §5.)

Our recommendations, the more important of which are summarised below, must not be regarded as the result of an investigation from the legal standpoint. They represent our view of the equitable application of the Agreement, having regard to all the circumstances surrounding its origin and the general intention of the parties at the outset :—

1. Charges for maintenance in excess of the 1913 quantum appearing in the Companies' claims now under examination or hereafter submitted should not be Maintenance. allowed; Companies to which payments in respect of such excess charges have already been made should refund the amount of the excess; any Company claiming to have incurred expenditure on making good abnormal wear and tear properly chargeable to Government account should substantiate its claim in accordance with the conditions hereafter indicated (No. 5). (Chapter III, §1.)

2. Current payments on account of arrears of maintenance other than proper renewals provisions should be discontinued. (Chapter III, §2.)

3. The Companies should utilise the funds already paid to them, on account of arrears of maintenance, in defraying the whole cost of overtaking deferred work, before receiving further payments on account of the additional cost of arrears overtaken. (Chapter III, §2.)

4. No payments should be made in respect of arrears of maintenance outstanding at the end of the period of control, except to the extent to which it may be possible for Companies to show that the amounts already paid to them are insufficient to provide for the making good of physical arrears that may actually require to be overtaken. (Chapter III, §3.)

5. Any claims that may be put forward in respect of Abnormal Wear and Tear should be justified on the following grounds :—

- (a) That the abnormal wear and tear has been due to Government user of the Company's undertaking;
- (b) that the making good of the abnormal wear and tear forming the subject of the claim has not been counterbalanced by reduced maintenance expenditure owing to subnormal wear and tear of other portions of the Company's undertaking in the same or another accounting period;
- (c) that the amounts received or receivable by the Company in respect of normal maintenance are insufficient to provide for the making good of the abnormal wear and tear forming the subject of the claim in addition to normal maintenance. (Chapter III, §4.)

Interest
on Capital
Expendi-
ture.

6. In view of the fact that the Companies receive interest in addition to the guaranteed net receipts, in respect of capital expenditure on assets that were not productive throughout the standard year, Companies should not enjoy revenue below-the-line, in addition to the guaranteed net receipts, from assets that were revenue producing in the standard period, and have since been realised. The matter should be adjusted by whatever may be the most convenient method from the accounting point of view. (Chapter IV, §2.)

Replace-
ment of
Stores.

7. The Agreement as to Replacement of Stores should be reviewed. In fixing the present charging powers of the Companies it is presumed that the current cost of stores was taken into account. Under the circumstances, therefore, as existing at present, there is no justification for the arrangement that the Companies should be recouped the increased cost of the Stores held by them, at the end of control, by an Exchequer subsidy. (Chapter IV, §3.)

8. The existing arrangements under which the claims of individual Companies are investigated by railway accountants, with whom officials of the Ministry of Transport are associated, should be continued and extended as may be considered necessary. (Chapter VII.)

We desire, finally, to state our indebtedness to our Secretary, Mr. Twentyman. With marked ability, and unwearying courtesy, he has obtained and marshalled the data for which we asked, and has drafted and redrafted our conclusions, as gradually formed, in regard to matters very difficult of correct and yet clear expression.

COLWYN (*Chairman*).
S. HARDMAN LEVER.
H. J. MACKINDER.
*WILLIAM GRAHAM.
*HARRY BARNES.
T. ROBINSON.
W. PETER RYLANDS.
GODFREY COLLINS.

E. TWENTYMAN,

Secretary.

RESERVATION ON THE REPORT OF THE DEPARTMENTAL
COMMITTEE ON RAILWAY AGREEMENTS.

The claim of the Railway Companies is based on the operation over a prolonged period of a Guarantee to make up a deficiency in their net receipts. The Guarantee arose out of the taking possession of the Railways under the powers given by the Act of 1871; but the deficiency was not limited to that caused by the exercise of these powers.

Under such Guarantee the claim is made up, not only in respect of deficiency due to control, but also of deficiency due to war and other causes.

I am strongly of the opinion that a claim so made up is not equitable, and that from it should be deducted all amounts in respect of deficiency not due to control. Such deduction would follow on the re-insertion in the Guarantee of the words which were originally inserted for the purpose of limiting the claim, and were deleted under pressure exercised at the time.

My colleagues have rejected such a proposal as impracticable; I do not concur in this view, and must be taken to dissent from any argument appearing in this Report in support of their action.

If the view of my colleagues is accepted, I agree that the course recommended by them is the nearest approach to equity and adequacy, and on that ground I join with them in signing this Report.

HARRY BARNES.

8th February, 1921.

Committee Room No. 25,
Ministry of Transport.

RESERVATION BY MR. WILLIAM GRAHAM.

In the circumstances attending this Inquiry, and the fact that within a comparatively short time the members of the Committee have had to apply their minds to a mass of agreements and undertakings between the Government and the Railway Companies dealing with questions of great technical and other complexity, it is obvious that in the main all that is possible is a report which suggests a solution according to broad principle, capable, however, of comparatively simple explanation. When the original Agreement was framed in August, 1914, the governing Statute was the Regulation of the Forces Act, 1871. Like all legislation, the Act is not destitute of ambiguity, but it appears to be beyond doubt that it specifies compensation only for what is clearly due to Government control or possession of a railway undertaking.

As originally framed, the fundamental Agreement was consistent with the letter and spirit of the Act of 1871, in that it included limiting words which excluded allowance or compensation for what could rightly be attributed to war circumstances in general as distinguished from effects strictly attributable to control. But the Railway Companies insisted on the deletion of the limiting words, and under pressure of national emergency the Government gave way. This appears to me to be the central point in the present controversy. From this fundamental error in policy, inconsistent with the Act of 1871, flowed other concessions throughout the amendment and amplification of the Agreements, the cumulative effect of which, in my judgment, was to give the Railway Companies protection against the general circumstances of the war as they affected British Railways. It is obvious that such a result cannot be defended. The Agreements are clearly *ultra vires*. Regarded as contracts they fail because it is inconceivable that the minds of the parties ever really come together, whatever the appearance of agreement. There is admittedly an almost complete absence of reciprocity. In any event, the consequences of strict adherence to the amended text would be contrary to public interest and policy.

I come now to the question of remedy. My colleagues in Committee, while emphasising the basis of the Act of 1871, have taken the view that it is not a practicable policy to go back over the events in the period of control and separate what was attributable to war circumstances from what was attributable to control; in other words, they do not think it feasible to re-insert at this stage the

limiting words and proceed to adjustments on that footing. In this respect they are in agreement with the contention of the Railway Companies. I regret that, in the absence of technical knowledge and such evidence as would convince me to the contrary, I am unable to take that view. It does not appear to be disputed that such adjustment would be the ideal method in the sense of strict justice, and it is, of course, only the application of the Act of 1871, which contains the policy from which no departure should have been made. Accordingly, while agreeing with by far the greater part of the Report of my colleagues, both in argument and in conclusion, and thus able to sign the main statement, I am compelled to say by way of reservation that, in my opinion, in view of the enormous sums of public money involved, it is of the utmost importance that even yet an effort should be made, and in the most resolute manner, to review the whole circumstances of the period of control, with their attendant liability on the part of the State, if any, in the light of the re-insertion of the limiting words. On this point it must be remembered that the Railway Companies themselves have repeatedly stated that it was no part of their purpose to gain by the emergency confronting the State; they have stated that they wished to be no better and no worse at the end of the period of control, but I suggest that this phrase is only acceptable if no better and no worse at the end of control refers strictly to the scope and influence of Government control itself. Thus understood, the phrase appears to me to be nothing more than another way of stating the central principle of the Act of 1871. While recognising that there may be certain abnormal factors for which a separate arrangement may be made, as, for example, abnormal wear and tear during control, I feel that the terms of the Act of 1871 should be regarded as exhaustive of the rights of the Railway Companies. Further, it is clear that they themselves evidently appreciated the character of the Agreements when the phraseology in which they urged their officials and servants loyally to abide by the understanding which had been reached is considered.

The only point which remains refers to the effect of the recommendations of the Report of the Committee. I have sought to ascertain whether in practice they will amount to the reinsertion of the limiting words and to the application of the Act of 1871. On this question it appears to be impossible to get assurance, and, indeed, assurance can hardly be expected, so complex is the whole range of controversy under review. It might be suggested that so striking is the difference between the known claims of the Companies and what the Committee actually recommends that in effect the position laid down in the Act of 1871 will be achieved. But on this point it appears to me to be doubtful whether the Agreements can ever really be interpreted accurately to achieve this result. It will be remembered that what the Companies accepted was a guarantee of the net receipts of 1913 as providing a fair definition of the compensation to which they were entitled, *i.e.*, compensation for loss or injury due to the exercise of the powers of the Secretary of State. But this foundation appears to me to be discredited by the practically admitted facts regarding the exceptional character of 1913 in the history of British railways. For these and other reasons I am satisfied that the Act of 1871 is the only possible basis, and, however difficult it may now be to work back to that Act as a foundation in view of all that has happened, I would urge that the suggestion of impracticability cannot, at this stage, be definitely accepted to the final exclusion of the other policy. I believe this view to be consistent with the opinion frequently indicated in the Report of the Committee, that as time went on the relations between the Government and the Companies were progressively altered until the Companies were ultimately safeguarded against probably the whole consequences of the war, whereas there is general agreement that the limits of their rights are fixed by what may be attributed to control.

WILLIAM GRAHAM.

8th February, 1921.

APPENDIX A.

(Note by the Secretary.)

SUMMARY OF ARRANGEMENTS IN REGARD TO MAINTENANCE.*

The following is a summary of the various arrangements in regard to maintenance expenditure, as they are reflected in transactions occurring in the periodical accounts and claims submitted by the Companies to the Government, or form the subject of possible claims to be submitted at the end of the period of control:—

A. *Permanent Way and Rolling Stock.*

(1) *Current Repairs.*—The whole cost of repairs† carried out during the period of possession, without limit, is charged to working expenses currently, and borne by the Government through the Account of Net Receipts.

(2) *Current Renewals.*—The net amount charged to working expenses in the Companies' accounts for 1913 in respect of renewals, after adding or deducting any amount transferred in that year to or from a renewals provision fund, is charged to working expenses currently and borne by the Government through the Account of Net Receipts.

The Government is similarly charged through this Account with the additional cost, due to the increase in prices since 1913, of all renewals carried out during the period.

The effect of these two transactions is that the Government is charged currently in the Account of Net Receipts with the whole cost of all renewals executed during the period, up to the limit of the 1913 quantum, plus the 1913 cost of deferred renewals, if any, or the additional cost, due to increase of prices since 1913, of renewals performed in excess of the 1913 quantum, if any.

(3) *Deferred Repairs and Renewals.*—The extent to which the repairs and renewals currently executed in either Abstract‡ fall short of the 1913 quantum§ for that Abstract is assessed, on a financial basis, by means of the "Arrears of Maintenance" Formula||. Cash payments on account of the ultimate cost of executing the ascertained arrears are made currently, at the rate of 115 per cent. of the 1913 cost of the deferred repairs, plus 15 per cent. of the 1913 cost of the deferred renewals; (100 per cent. of the 1913 cost of deferred renewals has already been charged in the Account of Net Receipts).

Appropriate adjustments are made to secure that the Companies receive or retain, through the Arrears of Maintenance Claims, only the amounts due in respect of the net arrears in each Abstract accumulated to date, after making allowance for excess in that Abstract in any particular accounting period. If a Company has carried out a net excess of repairs, however, it retains the whole cost of that excess, which has already been charged in the Account of Net Receipts.

(4) By the operation of the arrears of maintenance formula there may be an eventual adjustment in

respect of the additional cost of excess renewals charged in the Account of Net Receipts, but this adjustment will only take place in the event of a Company having, at the end of control, arrears of repairs of greater amount than its excess renewals—an unlikely contingency.

(5) There is no corresponding adjustment in the case of a Company having excess repairs and arrears of renewals, owing to the fact that cash payments on account of the 1913 cost of arrears of renewals are made through the Account of Net Receipts, and not through the Arrears of Maintenance Claims. On the other hand, a Company having excess repairs and arrears of renewals does not receive the additional 15 per cent. on account of the ultimate cost of carrying out its arrears of renewals, unless there are net arrears in respect of the Abstract as a whole, as in that case only can the percentage addition be obtained.

(6) The Government is under obligation to meet the balance of the cost of executing the net arrears of repairs and renewals, combined, in each Abstract, when the work is actually performed.

(7) The combined effect of these various operations is that the Government is under liability to meet the whole cost of carrying out the 1913 quantum of repairs and renewals of permanent way and rolling stock, in respect of the whole period of possession, whenever the work is done, and at whatever cost. Payments on account of the ultimate cost of deferred work are made currently at 115 per cent. of the cost at 1913 prices of the arrears shown by the formula. In addition, if repairs and renewals in excess of the 1913 quantum are executed during the period, the Government is charged with the whole cost of the excess repairs, and that portion of the cost of the excess renewals which is due to the increase in prices since 1913.

(8) *Abnormal Wear and Tear.*—In addition to its liability in respect of normal maintenance, the Government has undertaken to consider claims in respect of the cost of making good abnormal wear and tear arising during the period of control.

B. *Plant and equipment other than Permanent Way and Rolling Stock.*

The arrangements for current payments on account of arrears of maintenance apply only to maintenance of Permanent Way and Rolling Stock. In the case of other plant and equipment, the Government is charged currently, through the Account of Net Receipts, with the whole cost of maintenance work carried out, and with the amount of any provisions made in 1913. In the event of there being arrears of normal maintenance work at the end of the period of control, the Government will be liable for the whole cost of making good, less any portion of such cost already charged, as provision, in the Account of Net Receipts.

* The term "maintenance," as generally used in this Report, is intended to cover all maintenance expenditure and provision, including expenditure on repairs, partial renewals and complete renewals, reserves for depreciation and transfers to provision funds.

† "Repairs" as used in reference to Railway Companies' accounts signifies repairs and partial renewals; "Renewals" signifies complete renewals, with new materials throughout.

‡ Abstract A and Abstract B are the designations of the abstracts of expenditure prescribed by the Railway Companies (Accounts and Returns) Act,

1911, in which expenditure on the repair and renewal of (A) Permanent Way and Works, and (B) Rolling Stock are compiled.

§ The phrase "1913 quantum" of maintenance, etc., is a convenient term by which to express the cost of carrying out in any year during the period of possession, at the prices currently ruling, the quantity of maintenance work represented by the amount charged to working expenses in 1913, with appropriate additions in respect of the maintenance of capital assets brought into use since 1913.

|| This formula is described in Appendix B.

APPENDIX B.

(Note by the Secretary.)

CALCULATION OF ARREARS OF MAINTENANCE.

Arrears of Maintenance Formula.

The detailed instructions* for the calculation of deferred maintenance by means of the Arrears of Maintenance Formulae are extremely complicated, and involve many intricate questions of a technical character, both engineering and accounting.

The broad principle on which they are based is that the arrears of maintenance accruing in any year of account are measured by the amount by which the expenditure in the year, when adjusted in respect of all variations, as compared with the standard year, in relevant conditions, falls short of the amount of the corresponding charge to working expenses in the standard year.

The process followed in the Formula is briefly as follows:—

The amount expended by the Company in the Abstract concerned, and charged to Government in the Account of Net Receipts, is taken as the commencing figure. From this is deducted the assumed cost, during the year, of maintaining assets brought into use since 1913, the amount, if any, expended on making good abnormal wear and tear, and certain other items which it is necessary to eliminate from the expenditure of the year before comparison is made with the expenditure of 1913.

Adjustment is similarly made, by addition to the opening figure, in respect of items included in the expenditure of 1913, but not in that of the year of account, e.g., reduction in mileage of line or rolling stock in service.

The balance obtained, after these various adjustments have been made, is reduced by a flat percentage, representing the difference in the price levels of 1913 and the year of account; the resulting figure is the expenditure of the year, adjusted for comparison with that of 1913. This figure is deducted from the actual charge to the corresponding Abstract in the accounts of 1913, the difference being the *ascertained arrears of work*, expressed in terms of 1913 prices, which is then increased by 15 per cent., as a payment on account of the additional cost of making good the arrears.

The figure thus obtained represents 115 per cent. of the 1913 cost of the ascertained arrears of both repairs and renewals. The Company has already charged to Government, through the Account of Net Receipts, the whole amount charged in 1913 in respect of renewals, and has transferred to a provision fund the amount not expended. The amount transferred to a provision fund in respect of unperformed renewals must accordingly be deducted from the ascertained arrears shown by the formula. This is done after the addition of 15 per cent. to the 1913 cost of the arrears, and the balance, representing 115 per cent. of the 1913 cost of the ascertained arrears of repairs, plus 15 per cent. of the amount reserved through the Account of Net Receipts on account of unperformed renewals, is paid to the Company currently through the Arrears of Maintenance Claim.

Defects of Calculation.

This method of ascertaining arrears of maintenance appears to contain a number of defects, of which these detailed below are the most important:—

(1) The standard of maintenance work by comparison with which arrears are ascertained is the amount charged to working expenses in 1913. In the case of many Companies this amount included considerable sums transferred to provision funds in addition to actual expenditure on maintenance work performed in the year. The more appropriate figure to take would seem to be the actual expenditure in 1913, in respect of work performed in that year, irrespective of transfers to or from Provision Funds. While it is not possible, in the absence of a complete

investigation of the Companies' accounts, to affirm definitely that the amounts transferred to provision funds by particular Companies in 1913 were not required for the maintenance of the undertakings, it is highly probable that to a large extent they represented over-provision, made in pursuance of what is no doubt a sound conservative policy. To the extent to which this is the case these provisions were in reality appropriations of net revenue, and they should not be included in the standard maintenance charges for the purpose of ascertaining arrears. The Companies are entitled to receive in each year of control the actual amounts so reserved in 1913, as if the charges had not been raised, the standard net receipts would *pro tanto* have been increased.

It has been suggested that in all the circumstances the Companies should retain the additional 15 per cent. of their 1913 provisions already paid to them through the Arrears of Maintenance Claims, and that similar payments should be continued during the remainder of the period of possession, but that the ascertained arrears of work should be reduced in respect of the amounts provided and not spent in 1913, except in so far as any Company may be able to furnish satisfactory evidence that the amount of its provision was a proper depreciation charge to the revenue of 1913 in addition to the year's expenditure on maintenance work carried out.

Similarly, that in the case of those Companies who in 1913 met portions of their maintenance expenditure by transferring sums from provision funds previously accumulated, the ascertained arrears of work should be increased in respect of such transfers.

(2) In the Memorandum of Instructions (Blue Book), Clause 4, it was provided, *inter alia*, that the amount charged for the Renewal of Rolling Stock should not exceed the amount charged in 1913 except under special circumstances, such as additions to rolling stock in service or an increase in the cost of renewal work carried out during the period resulting from increased prices of labour and materials.

Doubts having arisen as to the precise meaning of this Instruction, the Railway Executive Committee, after consultation with the Government Accountants, issued an agreed interpretation of it in September, 1916, which provided, as regards renewals of rolling stock, that a Company might charge the Government with:—

- (a) The amount charged in 1913;
- (b) Such additional sum as might be necessary to make provision for the renewal of additional units or increased first cost of rolling stock in service;
- (c) The amounts attributable to increased rates of pay or prices of materials paid in respect of renewals carried out during the period and chargeable against the Government.

In arriving at (b) it was stipulated that the Company must follow its established practice, if one existed, and that where no practice existed the Company must satisfy the Investigators and the Government Accountants that the claim made was reasonable, having regard to all the circumstances.

The provision under (b) has been generally applied and with few exceptions the Companies have received additional allowances for renewals based on increased first cost.

The additional amounts provided under (b) although calculated on "first cost"—which is partially based on war prices—when transferred to the Company's Renewals Provision Fund, are assumed to be at 1913 prices only.

The matter is a somewhat complicated one, and can perhaps be best explained by an illustration:—

In the case supposed, a Company had, in 1913, 1,000 wagons, the original cost of which had been £100,000 (£100 per wagon); and in 1913 had spent or reserved for renewals, £4 per wagon, or 4 per cent. of first cost, viz., £4,000.

In each year of control up to 1919, no renewals were performed, and the Company charged the Government account with the sum of £4,000 per annum, transferred to a Renewals Provision Fund.

* The instructions are printed in *extenso* in Appendix I. *Vide* Yellow Book (1914-1915), p. 59; Green Book (1916), p. 72; Brown Book (1917-1918), p. 80. Examples showing the working out of the Formulae are given in Heliotrope Book, p. 64.

In 1920, 150 wagons are scrapped, and renewed at a cost of £45,000 (£300 per wagon), of which the Company's Provision Fund bears £15,000 (1913 cost of 1920 work) and the Government bears £30,000 (additional cost over 1913).

The number of wagons possessed by the Company is the same as in 1913, but their "first cost" has increased from £100,000 to £130,000, as follows:—

	£
Original cost, 1,000 at £100 ...	100,000
Less—Scrapped, 150 at £100 ...	15,000
	85,000
Add—Renewed, 150 at £300 ...	45,000
	£130,000

Under the "agreed interpretation" referred to above, the Company charges the Government account with 4 per cent. on £130,000 = £5,200 per annum, as compared with the 1913 charge of £4,000.

In other words, the Government is charged with an increased provision, in anticipation of the future renewal of the 150 new wagons, of £1,200 (*i.e.*, 4 per cent. on £30,000, the increased first cost of the 150 wagons).

The quantum of maintenance expenditure the Company is entitled to charge to Government account has thus been increased by £1,200 per annum. As this £1,200 is spent, it is assumed to be at 1913 prices; it is therefore worth to the Company, if spent at current prices, say, £3,600 per annum. That is to say, the Company's spending power has been increased by £3,600 in consequence of the renewal, at Government expense, of 150 wagons, and the amount of annual provision charged to the Government in respect of each of the renewed wagons, has been increased from £4 to £36.

The position is more readily seen if the increase in renewal provision is dissected to show the effect in the case of one wagon:—

	1913.	1920.	Increase.
	£	£	£
1. Amount standing in Company's books for capital cost of one wagon ...	100	100	Nil.
2. Amount borne by Government for cost of renewing one wagon (whole cost £300, of which £100 is borne by Renewal Fund) ...	—	200	200
3. First cost of wagon ...	100	300	200
4. Renewal Provision at 4% ...	4	12	8
5. Spending power of Renewal Provision ...	4	36	32
6. Spending power of Renewal Provision if increased first cost be ignored ...	4	12	8

(5) Shews that without any increased charge to the Company's funds the effective renewal provision for a wagon has increased from 4 per cent. to 36 per cent., *i.e.*, by 800 per cent., although prices have only increased by 200 per cent.

(6) Shews the correct increase from 4 per cent. to 12 per cent. to provide for the increase in cost of work if prices are 200 per cent. above 1913 rates.

It has been urged that the incorrect result shewn at (5) is obtained only if a Company is in arrear at the end of control, and the arrears are made good at 1913 rates plus 200 per cent., but the same result is effected if all renewal provisions are spent during control, since the spending power of the renewal provision is as in (5) and not as in (6).

In so far as increased first cost represents additional rolling stock or increased capacity or other improvement of rolling stock, the payment appears to be a reasonable one, but where it represents the additional cost of renewing rolling stock already specially paid by Government under (c), it does not appear reasonable that the Government should be called upon to make a further contribution for increased prices other than that through the Arrears Formulæ.

It should be added that Clause 4 of the Blue Book did not provide for an additional provision in respect of "increased first cost" of rolling stock renewed, and that the agreed interpretation of that clause under which the additional provision is claimed was not formulated with the object of allowing it.

It would appear that the charging of additional provisions in respect of the increased first cost of renewed rolling stock, though in the absence of control it would no doubt be in accordance with a sound accounting principle, should be disallowed during control, in view of the arrangements in force under which provisions on the 1913 basis are equated, when spent, to current prices.

It is clear that the Arrears of Maintenance have been artificially inflated in consequence of additional provisions in respect of increased first cost.

(3) In calculating the Arrears of Maintenance the expenditure in the control period is reduced by a percentage in order to eliminate the estimated proportion of such expenditure representing additional cost due to rise in prices as compared with 1913. As in one Company alone an error of one in this percentage co-efficient may vary the

Government's liability for one year by £250,000, its accuracy is important.

The increased cost of materials is based, for the purpose of this percentage, on the ascertained increase in cost of not less than 80 per cent. of the materials issued and used during the year. As this increase is assumed to apply to the net cost of all materials, it is suggested that an unsatisfactory result is obtained, and that the increased cost should have been calculated on as nearly as possible 100 per cent. of the materials issued less the value of the materials recovered. (*Vide* Appendix XIVa, p. 13, Para. 3 (d).)

(4) The calculation of this percentage appears to be defective in that no account is taken of credits or materials recovered, *e.g.*, scrap, and the ascertained arrears of work are in consequence artificially increased. (*Vide* Appendix XIVa, p. 11, Para. 3 (a).)

(5) The ascertained percentage of increase in wages and materials combined is applied to the whole expenditure in the Abstract, which includes a number of items which have not increased in the same ratio as wages and materials. To the extent to which items not containing the full element of increased prices are reduced by the percentage, the ascertained arrears of work are artificially enhanced.

The chief item affected is the charge made to Abstract A for Engine Power supplied by the Company for such purposes as ballasting. In the case of several large Companies, charges under this head have been made during the control period at 1913 rates.

As in the previous case the effect is an artificial enhancement of the arrears. In view of the large amounts involved, it is suggested that the percentage should be ascertained more closely, or alternatively that the expenditure should be analysed and a separate percentage, ascertained as closely as possible, applied to each class of expenditure. (*Vide* Appendix XIVa, p. 12, Para. 3 (b).)

(6) During and since the War, a large number of locomotives and wagons have been on loan to the War Office for service overseas under an agreement by which they have been maintained by that Department, and reconditioned at its expense on return to Great Britain. In calculating arrears of maintenance for years prior to 1919, such stock was assumed to be in railway service and maintained by the Companies; the Formula to this extent overstates the

arrears accrued. It is contended by the Companies that this is offset by abnormal wear and tear of the remaining stock. It is not admitted that this is the case. If it is, the Companies should substantiate claims in respect of making good abnormal wear and tear, as and when it is made good; the proper allowance should be made, in calculating arrears, for rolling stock maintained by the War Office.

(7) Another factor which has tended to swell the arrears—in the case of rolling stock renewals—arises out of duplications of rolling stock. Locomotives

and other stock, which would normally have been scrapped at the end of their usual life, have been retained in use for a number of years after having been fully depreciated and the new stock built to replace them have been brought into use. As allowances for depreciation are calculated on first cost or units of stock in service, Companies have continued to accumulate moneys for stock actually replaced. There is no contingent liability against such accumulations, and the ascertained arrears are *pro tanto* artificially inflated.

APPENDIX C.

(Note by the Secretary.)

OUTSTANDING LIABILITY IN RESPECT OF ARREARS OF MAINTENANCE.

The following tables show, in the case of the 14 principal Companies—representing between 90 per cent. and 95 per cent. of the total—the quantum of maintenance represented by the outstanding liability, in relation to the quantum of maintenance performed in 1913.

No adjustment has been made on account of amounts transferred to provision funds in 1913 and not spent, or in respect of the abnormal sums that were no doubt expended on maintenance in that year

in view of the abnormally high revenue. The amounts shown as arrears are the totals of the arrears of repairs, if any, in both Abstracts plus the amounts transferred to Renewals, etc., Provision Funds during control, and remaining unspent. No deduction has been made for amounts already charged in excess of the 1913 quantum, or in respect of defects in the calculation of arrears tending to swell the figures.

The commencing figures are taken from the tables supplied by Sir George Beharrell (Appendix VI).

ABSTRACT A.

Company.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	TOTAL.
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
1. 1913 quantum at 1913 prices ...	483,000	165,000	451,000	724,000	655,000	1,824,000	538,000	1,551,000	613,000	341,000	1,207,000	483,000	1,019,000	516,000	10,570,000
2. Arrears of Maintenance at 1913 prices	654,000	212,000	594,000	1,152,000	665,000	4,350,000	587,000	2,916,000	1,034,000	353,000	2,034,000	510,000	2,547,000	639,000	18,247,000
3. Arrears of Maintenance at current prices (200% above 1913) ...	1,962,000	636,000	1,782,000	3,456,000	1,995,000	13,050,000	1,761,000	8,748,000	3,102,000	1,059,000	6,102,000	1,530,000	7,641,000	1,917,000	54,741,000
4. Amount already paid on account (115% of (2)) ...	752,000	244,000	683,000	1,325,000	765,000	5,002,000	675,000	3,353,000	1,189,000	406,000	2,339,000	587,000	2,930,000	735,000	20,985,000
5. Balance outstanding on basis of current prices ((3)-(4)) ...	1,210,000	392,000	1,099,000	2,131,000	1,230,000	8,048,000	1,086,000	5,395,000	1,913,000	653,000	3,763,000	943,000	4,711,000	1,182,000	33,756,000
6. Quantum of work at 1913 prices represented by balance outstanding (1/3rd of (5)) ...	403,000	131,000	366,000	710,000	410,000	2,683,000	362,000	1,798,000	638,000	218,000	1,254,000	315,000	1,570,000	394,000	11,252,000
7. Percentage of 1913 quantum of maintenance represented by balance outstanding (i.e., (6) expressed as percentage of (1)) ...	83%	79%	81%	98%	63%	147%	67%	116%	104%	64%	104%	65%	154%	76%	106%
8. Average percentage of 1913 quantum in each of the 5 years 1914-1919, represented by the balance outstanding (1/5th of (7)) ...	16.6%	15.8%	16.2%	19.6%	12.6%	29.4%	13.4%	23.2%	20.8%	12.8%	20.8%	13%	30.8%	15.2%	21.2%

ABSTRACT B

Company.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	TOTAL.
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
1. 1913 quantum at 1913 prices ...	568,000	252,000	746,000	745,000	651,000	1,777,000	648,000	1,694,000	518,000	364,000	1,621,000	538,000	1,866,000	461,000	12,449,000
2. Arrears of Maintenance at 1913 prices	533,000	264,000	592,000	856,000	1,214,000	2,673,000	354,000	1,690,000	876,000	472,000	2,990,000	477,000	2,232,000	681,000	15,904,000
3. Arrears of Maintenance at current prices (200% above 1913) ...	1,599,000	792,000	776,000	2,568,000	3,642,000	3,019,000	1,062,000	5,070,000	2,628,000	1,416,000	8,970,000	1,431,000	6,696,000	2,043,000	47,712,000
4. Amount already paid on account (115% of (2)) ...	613,000	303,000	681,000	984,000	1,396,000	3,074,000	407,000	1,944,000	1,008,000	543,000	3,439,000	548,000	2,566,000	783,000	18,289,000
5. Balance outstanding on basis of current prices ((3)-(4)) ...	986,000	489,000	1,095,000	1,584,000	2,246,000	4,945,000	655,000	3,126,000	1,620,000	873,000	5,531,000	883,000	4,130,000	1,200,000	29,423,000
6. Quantum of work at 1913 prices represented by balance outstanding (1/3rd of (5)) ...	329,000	163,000	365,000	528,000	749,000	1,648,000	218,000	1,042,000	540,000	291,000	1,844,000	294,000	1,377,000	420,000	9,803,000
7. Percentage of 1913 quantum of maintenance represented by balance outstanding (i.e., (6) expressed as percentage of (1)) ...	58%	64%	49%	71%	115%	93%	34%	62%	104%	80%	114%	55%	74%	91%	79%
8. Average percentage of 1913 quantum, in each of the 5 years 1914-1919, represented by balance outstanding (1/5th of (7)) ...	11.6%	12.8%	9.8%	14.2%	23%	18.6%	6.8%	12.4%	20.8%	16%	22.8%	11%	14.8%	18.2%	15.8%

ABSTRACTS A AND B (COMBINED).

Company.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	TOTAL.
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
1. 1913 quantum at 1913 prices ..	1,051,000	417,000	1,197,000	1,469,000	1,306,000	3,601,000	1,186,000	3,245,000	1,131,000	705,000	2,828,000	1,021,000	2,885,000	977,000	23,019,000
2. Arrears of Maintenance at 1913 prices	1,187,000	476,000	1,186,000	2,008,000	1,879,000	7,023,000	941,000	4,606,000	1,910,000	825,000	5,024,000	987,000	4,779,000	1,320,000	34,151,000
3. Arrears of Maintenance at current prices (200 % above 1913) ...	3,561,000	1,428,000	3,558,000	6,024,000	5,637,000	21,069,000	2,823,000	13,818,000	5,730,000	2,475,000	15,072,000	2,961,000	14,337,000	3,960,000	102,453,000
4. Amount already paid on account (115% of (2)) ...	1,365,000	547,000	1,364,000	2,309,000	2,161,000	8,076,000	1,082,000	5,297,000	2,197,000	949,000	5,778,000	1,135,000	5,496,000	1,518,000	39,274,000
5. Balance outstanding on basis of current prices ((3)-(4)) ...	2,196,000	881,000	2,194,000	3,715,000	3,476,000	12,993,000	1,741,000	8,521,000	3,533,000	1,526,000	9,294,000	1,826,000	8,841,000	2,442,000	63,179,000
6. Quantum of work at 1913 prices represented by balance outstanding (1/3rd of (5)) ...	732,000	294,000	731,000	1,238,000	1,159,000	4,331,000	580,000	2,840,000	1,178,000	509,000	3,098,000	609,000	2,947,000	814,000	21,060,000
7. Percentage of 1913 quantum of maintenance represented by balance outstanding (i.e., (6), expressed as percentage of (1)) ...	70%	70%	61%	84%	89%	120%	49%	88%	104%	72%	109%	60%	102%	83%	91%
8. Percentage of 1913 quantum in each of the years 1914-1919, represented by balance outstanding ...	14%	14%	12·2%	16·8%	17·8%	24%	9·8%	17·6%	20·8%	14·4%	21·8%	12%	20·4%	16·6%	18·2%

PERCENTAGE OF 1913 QUANTUM AVERAGED OVER THE YEARS 1914-1919 REPRESENTED BY BALANCE OUTSTANDING.

Company.	Abstract A.	Abstract B.	Abstracts A & B combined.
	Per cent.	Per cent.	Per cent.
1	16·6	11·6	14·0
2	15·8	12·8	14·0
3	16·2	9·8	12·2
4	19·6	14·2	16·8
5	12·6	23·0	17·8
6	29·4	18·6	24·0
7	13·4	6·8	9·8
8	23·2	12·4	17·6
9	20·8	20·8	20·8
10	12·8	16·0	14·4
11	20·8	22·8	21·8
12	13·0	11·0	12·0
13	30·8	14·8	20·4
14	15·2	18·2	16·6
TOTAL ...	21·2	15·8	18·2

If the above calculation be made on the basis of each Company's actual expenditure in 1913—eliminating transfers to and from provision funds—and proportionate reductions be effected in the ascertained arrears, the results are as follows:—

ABSTRACT A.

Company.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	TOTAL.
1. 1913 quantum at 1913 prices ...	£ 483,000	£ 165,000	£ 451,000	£ 724,000	£ 655,000	£ 1,824,000	£ 538,000	£ 1,551,000	£ 613,000	£ 341,000	£ 1,207,000	£ 483,000	£ 1,019,000	£ 516,000	£ 10,570,000
2. Arrears of Maintenance at 1913 prices	654,000	212,000	594,000	1,152,000	665,000	4,350,000	587,000	2,916,000	1,034,000	353,000	2,034,000	510,000	2,547,000	639,000	18,247,000
3. Arrears of Maintenance (adjusted) at current prices (200% above 1913) ...	1,612,000	636,000	1,866,000	3,400,000	1,939,000	11,398,000	1,607,000	8,048,000	2,612,000	1,059,000	5,892,000	1,614,000	7,361,000	1,973,000	51,017,000
4. Amount already paid on account (115% of (2)) ...	752,000	244,000	683,000	1,325,000	765,000	5,002,000	675,000	3,353,000	1,189,000	406,000	2,339,000	587,000	2,930,000	735,000	20,985,000
5. Balance outstanding on basis of current prices ((3)-(4)) ...	860,000	392,000	1,183,000	2,075,000	1,174,000	6,396,000	932,000	4,695,000	1,423,000	653,000	3,553,000	1,027,000	4,431,000	1,238,000	30,032,000
6. Quantum of work at 1913 prices represented by balance outstanding (1/3rd of (5)) ...	287,000	131,000	394,000	692,000	391,000	2,132,000	311,000	1,565,000	474,000	218,000	1,184,000	342,000	1,477,000	413,000	10,011,000
7. Percentage of 1913 quantum of Maintenance represented by balance outstanding (i.e., (6) expressed as percentage of (1)) ...	59%	79%	87%	95%	60%	117%	58%	101%	77%	64%	98%	71%	145%	80%	95%
8. Average percentage of 1913 quantum in each of the 5 years, 1914-1919, represented by the balance outstanding (1/5th of (7)) ...	11.8%	15.8%	17.4%	19%	12%	28.4%	11.6%	20.2%	15.4%	12.8%	19.6%	14.2%	29%	18%	19%

ABSTRACT B.

Company.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	TOTAL.
1. 1913 quantum at 1913 prices ...	£ 568,000	£ 252,000	£ 746,000	£ 745,000	£ 651,000	£ 1,777,000	£ 648,000	£ 1,694,000	£ 518,000	£ 364,000	£ 1,621,000	£ 538,000	£ 1,866,000	£ 461,000	£ 12,449,000
2. Arrears of Maintenance at 1913 prices	533,000	264,000	592,000	856,000	1,214,000	2,573,000	354,000	1,690,000	876,000	472,000	2,990,000	477,000	2,232,000	681,000	15,904,000
3. Arrears of Maintenance (adjusted) at current prices (200% above 1913) ...	1,081,000	764,000	2,098,000	2,568,000	3,530,000	5,555,000	1,692,000	4,580,000	1,648,000	1,430,000	6,114,000	1,305,000	5,352,000	2,799,000	40,516,000
4. Amount already paid on account (115% of (2)) ...	613,000	303,000	681,000	984,000	1,396,000	3,074,000	407,000	1,944,000	1,008,000	543,000	3,439,000	548,000	2,566,000	783,000	18,289,000
5. Balance outstanding on basis of current prices ((3)-(4)) ...	468,000	461,000	1,417,000	1,584,000	2,134,000	2,481,000	1,285,000	2,636,000	640,000	887,000	2,675,000	757,000	2,786,000	2,016,000	22,227,000
6. Quantum of work at 1913 prices represented by balance outstanding (1/3rd of (5)) ...	156,000	154,000	472,000	528,000	711,000	827,000	428,000	879,000	213,000	296,000	892,000	252,000	929,000	672,000	7,409,000
7. Percentage of 1913 quantum of Maintenance represented by balance outstanding (i.e., (6) expressed as percentage of (1)) ...	27%	61%	63%	71%	109%	47%	66%	52%	41%	81%	55%	47%	50%	146%	60%
8. Average percentage of 1913 quantum in each of the 5 years, 1914-1919, represented by the balance outstanding (1/5th of (7)) ...	5.4%	12.2%	12.6%	14.2%	21.8%	9.4%	13.2%	10.4%	8.2%	16.2%	11%	9.4%	10%	29.2%	12%

ABSTRACTS A AND B (COMBINED).

Company.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	TOTAL.
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
1. 1913 quantum at 1913 prices ...	1,051,000	417,000	1,197,000	1,469,000	1,306,000	3,601,000	1,186,000	3,245,000	1,131,000	705,000	2,828,000	1,021,000	2,885,000	977,000	23,019,000
2. Arrears of Maintenance at 1913 prices	1,187,000	476,000	1,186,000	2,008,000	1,879,000	7,023,000	941,000	4,606,000	1,910,000	825,000	5,024,000	987,000	4,779,000	1,320,000	34,151,000
3. Arrears of Maintenance (adjusted) at current prices (200% above 1913) ...	2,693,000	1,400,000	3,964,000	5,968,000	5,469,000	16,953,000	3,299,000	12,628,000	4,260,000	2,489,000	12,006,000	2,919,000	12,713,000	4,772,000	91,533,000
4. Amount already paid on account (115% of (2)) ...	1,365,000	547,000	1,364,000	2,309,000	2,161,000	8,076,000	1,082,000	5,297,000	2,197,000	949,000	5,778,000	1,135,000	5,496,000	1,518,000	39,274,000
5. Balance outstanding on basis of current prices ((3)-(4)) ...	1,328,000	853,000	2,600,000	3,659,000	3,308,000	8,877,000	2,217,000	7,331,000	2,063,000	1,540,000	6,228,000	1,784,000	7,217,000	3,254,000	52,259,000
6. Quantum of work at 1913 prices represented by balance outstanding (1/3rd of (5)) ...	443,000	285,000	866,000	1,220,000	1,102,000	2,959,000	739,000	2,444,000	687,000	514,000	2,076,000	594,000	2,406,000	1,085,000	17,420,000
7. Percentage of 1913 quantum of Maintenance represented by balance outstanding (i.e., (6) expressed as percentage of (1)) ...	42%	68%	72%	83%	84%	82%	62%	75%	61%	73%	73%	58%	81%	111%	75%
8. Average percentage of 1913 quantum in each of the 5 years, 1914-1919, represented by the balance outstanding (1/5th of (7)) ...	8.4%	13.6%	14.4%	16.6%	16.8%	16.4%	12.4%	15%	12.2%	14.6%	14.6%	11.6%	16.2%	22.2%	15%

PERCENTAGE OF 1913 QUANTUM AVERAGED OVER THE YEARS 1914-1919 REPRESENTED BY BALANCE OUTSTANDING.

Company.	Abstract A.	Abstract B.	Abstracts A & B combined.
	Per cent.	Per cent.	Per cent.
1	11.8	5.4	8.4
2	15.8	12.2	13.6
3	17.4	12.6	14.4
4	19.0	14.2	16.6
5	12.0	21.8	16.8
6	23.4	9.4	16.4
7	11.6	13.2	12.4
8	20.2	10.4	15.0
9	15.4	8.2	12.2
10	12.8	16.2	14.6
11	19.6	11.0	14.6
12	14.2	9.4	11.6
13	29.0	10.0	16.2
14	16.0	29.2	22.2
TOTAL ...	19.0	12.0	15.0

A P P E N D I C E S .

CONTENTS.

APPENDIX No.

- I.—Principal Letters and Documents relating to the General Railway Agreements (Great Britain).
(*Vide also* Appendices XVI. and XVII.)
- II.—*Pro forma* of Account No. 8 of First Schedule to the Railway Companies (Accounts and Returns) Act, 1911.
- III.—Summary of Evidence given by Sir George Beharrell.

SUBMITTED BY SIR GEORGE BEHARRELL.

- IV.—Letter dated 7th December, 1914, from Board of Trade to Mr. Gurney Fowler regarding the appointment of Government Accountant.
- V.—Summary of Receipts and Payments appearing below-the-line in the Published Accounts 1913-1919, for fourteen principal Railway Companies in Great Britain, excluding Interest and Dividends on Stocks and Shares.
- VI.—Tables showing :—
- (1) Comparison of Expenditure on Maintenance (Abstract A), Standard Year with Control Period for 14 principal Railway Companies.
 - (2) Ditto (Abstract B).
 - (3) Comparison of Government Liability (at 200 per cent. over 1913 costs) for Arrears of Maintenance, (i.) under existing interpretation of the Agreements, (ii.) if maintenance expenditure is limited to 1913 quantum.
- VII.—Example of application of arrangement with regard to Increased First Cost.
- VIII.—Example of method of applying the Arrears of Maintenance Formula. (Abstract A.)
- IX.—Example of effect on Arrears of Maintenance Claim of charges for Engine Power in Abstract A, at 1913 rates.
- X.—Estimate of Excess Maintenance Cost (Way and Works and Rolling Stock)—Period of Control compared with Standard Year.
- XI.—Tables showing adjustments in published figures of Railway Revenue during control period on account of Government Traffic, and possible outstanding Government liabilities under the Agreements.
- XII.—Illustration of effect of Agreement as to Replacement of Stores.
- XIII.—Letter dated 25th November, 1920, from Railway Companies Association to Ministry of Transport referring to Liabilities of the Government maturing at the end of control. (*Vide also* Appendix XXX.)

SUBMITTED BY SIR ALEXANDER GIBB.

- XIV.—Statement of Evidence.
- XIVa.—Appendices to No. XIV.

SUBMITTED BY SIR ALBERT WYON.

- XV.—Statement of Evidence.
- XVI.—Copies of certain documents relating to the Memorandum of Instructions (Blue Book). (*Vide also* Appendix I, Section III.)
- XVII.—Letters and documents relating to the inception of the "Pink Book." (*Vide also* Appendix I Section VII.)
- XVIII.—Statement showing the effect on the Account of Net Receipts and the Arrears of Maintenance (claim of treating a hypothetical case of damage to Telegraph Poles and Wires as Abnormal Wear and Tear or otherwise.
- XIX.—*Pro forma* of "Analysis of Abstracts A, B (1), (2) and (3)." (Known as the Blue Form.)
- XX.—Statement of aggregate amount charged to Revenue by the Controlled Companies in respect of Renewals (Abstracts A and B) in the year 1913, showing the portion thereof represented by actual expenditure.
- XXI.—Memorandum setting forth certain considerations in connection with the agreed interpretation of Clause 4 of the Memorandum of Instructions. (Blue Book.)
- XXII.—Amendments and amplifications of answers made by Sir Albert Wyon to various questions in the Minutes of Evidence.

SUBMITTED BY SIR WILLIAM PLENDER.

- XXIII.—Statement of evidence to be given.
- XXIV.—Replies to certain questions raised in evidence.

SUBMITTED BY SIR ALEXANDER BUTTERWORTH.

- XXV.—Precis of Evidence.
- XXVI.—Memorandum with reference to the Financial Arrangements between the Government and the Railways.
- XXVII.—Correspondence regarding submission of Evidence on behalf of the late Railway Executive Committee.
- XXVIII.—Note with regard to Arrears of Maintenance—Additional Rolling Stock in Service.
- XXIX.—Letter regarding the effect of the 8-hours day upon the Railway Companies.
- XXX.—Letter regarding the question whether information could be obtained for the Committee as to the amount of the ultimate claims of the Railway Companies against the Government. (*Vide also* Appendix XIII.)

APPENDIX I.

*(Referred to throughout the Minutes of Evidence as "the Printed Documents,"
"the White Paper," "the Print," &c.)*

PRINCIPAL

LETTERS AND DOCUMENTS

RELATING TO THE

GENERAL RAILWAY AGREEMENTS

(GREAT BRITAIN).

CONTENTS.

SECTION.	PAGE
I.—Guarantee of Net Receipts. Documents Nos. 1 to 16	3
II.—Proportion of War Bonus borne by Railway Companies. Documents No. 17 to 32	14
III.—Approval of the Instructions for the Preparation of the Accounts of Controlled Railway Companies. Documents Nos. 33 to 39*	24
IV.—Interpretation of the Provisions of the Instructions as to the Amount chargeable in respect of Renewals. Document No. 40	33
V.—Payment in respect of Arrears of Maintenance and Renewal Work. Documents Nos. 41 to 58	35
VI.—Instructions in regard to the preparation of the Claims for Arrears of Maintenance and Renewal Work, Abstracts A and B, 1914–1918. Documents Nos. 59 to 70	55
VII.—Formal approval of Supplementary Clauses and Correspondence in regard to Arrears of Maintenance other than Abstracts A and B. Documents Nos. 71 to 80†	88
VIII.—Instructions in regard to the preparation of the Claims for Arrears of Maintenance and Renewal Work, Abstracts A and B. Year 1919. Documents Nos. 81 to 84	99
IX.—Allowances in respect of Maintenance and Depreciation of Additional Works and Plant comprised in Abstracts A and B (other than Permanent Way and Rolling Stock). Documents Nos. 85 and 86	105
X.—Increase to 5 per cent. in the Rate of Interest allowed on approved fresh Capital Expenditure. Documents Nos. 87 to 93	108
XI.—Arrangements in regard to the Payment for Railway Works Constructed under authority of the Board of Trade. Documents 94 to 100	115
XII.—Arrangements with regard to Railway Companies' Steamers. Document No. 101	121
XIII.—Question of Compensation to be given to the Railway Companies in respect of the use of uncreosoted Sleepers. Documents 102 to 110	125
XIV.—Insurance of Railway Companies Property against Fire. Documents Nos. 111 to 118	132
XV.—Financial Arrangements made to facilitate the immediate Purchase of Stores by the Railway Companies after the Armistice. Documents Nos. 119 to 123	138
XVI.—Arrangements with regard to Railway Rolling Stock sent Abroad. Document No. 124	142
XVII.—Arrangements made between the Ministry of Munitions and the Railway Executive Committee with regard to payments for Permanent Way materials supplied for use Overseas Document No. 125	144
List of Railway Companies in the United Kingdom whose undertakings are in the possession of the Minister of Transport	147
N.B.—The correspondence is not exhaustive but all letters and documents considered to be essential to an understanding of the Agreements have been printed.	

NOTE.—The Blue Book is printed as Document No. 39, page 28.
 The Yellow Book is printed as Document No. 64, page 59.
 The Heliotrope Book is printed as Document No. 65, page 64.
 The Green Book is printed as Document No. 66, page 72.
 The Brown Book is printed as Document No. 70, page 80.
 The Pink Book is printed as Document No. 71, page 89.

* Vide also Appendix XVI.
 † Vide also Appendix XVII.

I.—GUARANTEE OF NET RECEIPTS.

Document Number.	PAGE
(1) Form of Letter of 4th-5th August, 1914, issued by the War Office to the various Railway Companies of whose undertakings possession was taken	4
(2) Letter of 6th August, 1914, from the Railway Executive Committee to the Board of Trade intimating that the Executive Committee would recommend the Companies to accept the proposed Agreement for the guarantee of net receipts	4
(3) Letter of 8th August, 1914, from Board of Trade to Railway Executive Committee in reply to above	4
(4) Extract from letter of 8th August, 1914, from the Board of Trade to the Treasury informing them of the arrangements made	5
(5) Letter of 9th August, 1914, from the Railway Executive Committee to the Board of Trade stating that they had taken steps to safeguard the position of the Government against the possibility that Railway Companies might take advantage of the Agreement to spend abnormal sums out of revenue on the maintenance and renewal of their lines and stock	7
(6) Letter of 21st August, 1914, from the Board of Trade to the Treasury suggesting that arrangements should be made for the payment on account to the Companies of part of the sums due under the Agreement	7
(7) Letter of 11th September, 1914, from the Board of Trade to the Treasury suggesting that—	
(a) Net receipts under the Agreement should mean the net receipts shown in Account No. 8 of the Railway Companies statutory form of Accounts, excluding the items under the heading "Miscellaneous Receipts (Net)"	8
(b) That the estimated liability of the Government should be paid monthly in full at a date not less than one month after the period to which the account is made up	8
(8) Letter of 13th September, 1914, from the Railway Executive Committee to the Board of Trade stating that every Company taken over by the Government except one had signified its acceptance of the Agreement	9
(9) Letter of 21st November, 1914, from Railway Executive Committee to the Board of Trade stating that the one outstanding Railway Company had signified its assent to the Agreement	9
(10) Letter of 9th October, 1914, from the Treasury to the Board of Trade agreeing that payment of compensation might be made monthly after the monthly accounts had been examined at the Board of Trade and transmitted to the Treasury, subject to there being from time to time money available out of the sums placed at the disposal of the Treasury by Parliament, and also agreeing to the definition of net receipts proposed in the Board of Trade letter of 12th September, 1914 ...	10
(11) Letter of 12th October, 1914, from the Board of Trade to the Railway Executive Committee informing them that the Treasury agree as above	10
(12) Letter of 15th October, 1914, from the Railway Executive Committee to the Board of Trade thanking the President for the arrangements made	11
(13) Circular letter No. 108 of 15th October, 1914, from the Railway Executive Committee to each controlled Railway Company with regard to periodical payments and the definition of net receipts	11
(14) Extract from letter of 26th January, 1915, from the Board of Trade to the Treasury on the subject of the interpretation of the term "previous year" in the Railway Agreement	12
(15) Extract from letter of 9th March, 1915, from the Treasury to the Board of Trade agreeing that the term "the previous year" in the Railway Agreement is to be construed throughout as referring to 1913	12
(16) Letter of the 5th September, 1916, from the President of the Board of Trade to Sir Gilbert Cloughton, intimating that the Government extended the period of guarantee to two years after the termination of the War	13

(1)

SECRET.

WAR OFFICE, LONDON, S.W.
 Midnight, 4th-5th August, 1914.

79/3769 (Q.M.G. 2).

Sir,

I am commanded by the Army Council to inform you that His Majesty the King has signed an Order in Council under the Provisions of the Regulations of the Forces Act of 1871, and that your Railway, including any Railway worked by you, is taken over by the Government under that Act.

You will carry on as usual, subject to the instructions of the Executive Committee, of which the President of the Board of Trade is chairman. This Committee is located at 35, Parliament Street, S.W.; telegraphic address, "Studding, Parl, London; telephone number, Central 3127 and 3128.

Your attention is drawn to the Provisional Instructions* to General Managers issued herewith.

I am to request you to acknowledge this communication.

I am, Sir,

Your obedient Servant,
 (Signed) R. H. BRADE.

The Secretary,
 — Railway.†

* These instructions were merely operating instructions.

† A complete list of controlled Railways in the United Kingdom (some of which, however, came under control subsequently to August, 1914), will be found in Appendix I, p. 147.

(2)

F. 175.

RAILWAY EXECUTIVE COMMITTEE,
 35, PARLIAMENT STREET, WESTMINSTER, S.W.
 6th August, 1914.

Dear Sir,

The Executive Committee has received from Mr. Marwood an intimation that the Government are prepared to agree that the question of the compensation to the Railway Companies, arising under the Act of 1871, should be adjusted on the following basis:—

To ascertain the compensation payable the aggregate net receipts of all the Railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year. The ascertained deficiency shall be the amount of compensation due. Provided that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency shall be reduced in the like proportion. Any question as to the amount of the deficiency shall, in default of agreement, be determined by the Railway and Canal Commission.

I have to inform you that the Executive Committee have resolved to recommend to the Companies, whose Boards will be summoned at the earliest possible moment, the acceptance of this proposal.

Yours faithfully,

(Signed) H. A. WALKER,
 Acting Chairman of the Railway
 Executive Committee.

The President,
 Board of Trade.

(3)

BOARD OF TRADE,
 7, WHITEHALL GARDENS,
 LONDON, S.W.,
 8th August, 1914.

Sir,

I am directed by the Board of Trade to acknowledge the receipt of your letter of the 6th August on the subject of the compensation to be paid under the Regulation of

the Forces Act, 1871, to those Railway Companies whose railroads have been taken possession of, and to state that the Board are glad to learn that the Committee are prepared to agree that the compensation should be adjusted on the basis shown in that letter.

I am to add that the Board of Trade note that the Committee have resolved to recommend to the Companies the acceptance of this proposal, and they assume that these include Companies other than those represented on the Committee.

I am, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

H. A. Walker, Esq.,
Railway Executive Committee,
35, Parliament Street, S.W.

F. 175.

(4)

BOARD OF TRADE.

8th August, 1914.

Sir,

I am directed by the Board of Trade to advert to the discussion which took place at the Treasury on the 6th August, when the Chancellor of the Exchequer and the President of the Board of Trade were present, and I am to state, for the information of the Lords Commissioners of His Majesty's Treasury, that, as a result of that discussion, the Railway Executive Committee were informed that the proposal contained in their Memorandum, of which a copy (Enclosure No. 1) is attached, would be accepted by His Majesty's Government subject to a proviso in the attached form (Enclosure No. 2).

A reply, of which a copy (Enclosure No. 3) is attached, has now been received from the Executive Committee agreeing that the question of compensation to the Railway Companies arising under the Regulation of the Forces Act, 1871, should be adjusted on the basis proposed by them subject to that proviso.

It is now proposed that each Company should enter into an agreement with the Government giving effect to the arrangement come to, and a draft of the proposed Agreement will be forwarded to the Treasury when it has been prepared.

* * * * *

I have the honour to be, Sir,

Your obedient Servant,

(Signed) H. LLEWELLYN SMITH.

The Secretary,
Treasury, S.W.

(The Treasury acknowledged the receipt of this letter on 14th August, 1914.)

(Enclosure No. 1 in Board of Trade Letter of 8th August, 1914.)

The Executive Committee recognise the desirability from the point of view alike of the Government and of the Railway Companies of arriving at some understanding in advance as to the financial arrangements necessary for carrying out the scheme of Government control of the Railways under the Act of 1871, and as to the compensation payable to the Companies thereunder.

The provisions of the Act leave open a number of questions which, in the absence of agreement, would be very difficult of solution. And in turn the fact of these questions being open would seriously impair the efficiency of the machinery set up to carry out the provisions of the Act as to the working of the railways by the Executive Committee.

The essentials of any agreement on the subject appear to be that it should be—

1. Fair to both sides—a national emergency being eminently an occasion where there should be no standing out on either side for extreme terms.
2. Simple in effect and free from administrative complications.
3. Economical in its results so far as this can be achieved without impairing the efficiency of the scheme.

The Executive Committee have given very careful consideration to the whole question, and the only form of agreement which seems to them to combine these three essentials, and indeed the only one that seems practicable in the circumstances, is one under which the Government in some form or other guarantee to the Railway Companies their normal net receipts.

(B 16959)

A 3

When all things are considered, the Executive Committee believe that an arrangement on the basis suggested would be both fair and advantageous to both sides, and in support of this view they desire to point out—

1. As the Executive Committee are advised, in all countries where the Government have found it necessary to take over privately owned Railways in time of national emergency, the practice has been to do so on the lines now suggested by the Executive Committee, which seems to point to some such arrangement being regarded as the most suitable in exceptional contingencies of this character.
2. While the Executive Committee appreciate the objection that certain branches of traffic will be adversely affected, and perhaps entirely destroyed by the existence of war apart from the military control of the Railways, the emergency itself will create new traffics which in the ordinary way would yield substantial revenues to the Railways—*e.g.*, first, there will be the carriage of troops and munitions of war on an exceptionally extensive scale; and secondly, there will be a diversion to rail of traffic which, under ordinary circumstances, would be carried by sea. As an instance of the second class of traffic may be mentioned the carriage of coal from the northern coalfields to London. At the present time more than half that coal is brought to London by sea, and the whole of this traffic must be diverted from sea to rail if the eastern ports are closed or London is blockaded. A further instance is that during the continuance of hostilities the Government are requiring an enormous weight of Welsh coal to be conveyed to the English and Scotch east coast ports. Taking Immingham and Hull as an example, the average rate paid on the coal at the present time is 2s. 11d. per ton; but if this traffic is displaced by rail-borne coal from South Wales, the conveyance charge on such coal would be four or five times this figure, which would, of course, if charged, be to the benefit of the Railway Companies.
3. On the other hand, supposing the apprehensions of the Government are well founded in fact, and there is a diminution in the aggregate volume of traffic, then under ordinary circumstances it would follow as a matter of course that, in order to adjust themselves to the new condition of things, the Railway Companies would make large reductions in the numbers of their staff employed in the working and maintenance of their undertakings.

In view, however, of the national emergency which now exists, the Railway Companies do not desire to take any such steps, and indeed they assume it is the wish of the Government that they should refrain from taking any such step in order that they may be in a position to deal with any emergency that may at any moment arise.

It is submitted that these considerations differentiate the case entirely from that of other traders or commercial bodies who might be damaged by the Government taking over their works.

4. The proposed arrangement would do away with the necessity of any elaborate system of accounting as between the Railway systems of the various Companies, and also obviate the necessity of weighing, entering up and charging out each consignment of Government traffic, thereby greatly facilitating the despatch and delivery of the traffic and also enabling considerable economies to be effected which under the proposal of the Executive Committee would enure to the benefit of the Government.

Having regard to all these considerations the Executive Committee propose that the question of compensation arising under the Act should be adjusted on the following basis :—

To ascertain the compensation payable the aggregate net receipts of all the Railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year. The ascertained deficiency shall be the amount of compensation due. Any question as to the amount of the deficiency shall, in default of agreement, be determined by the Railway and Canal Commission.

The sum so payable as compensation, together with the net receipts of the Railways taken over, shall be distributed among the Railway Companies in proportion to the net receipts of each Company during the period with which comparison is made.

The above expresses the unanimous view of the members of the Executive Committee, who, if the suggestion is accepted by the Government, are prepared to recommend its acceptance to their respective Boards, and to use their best endeavours to procure its acceptance by the Companies not represented on the Executive Committee.

(Enclosure No. 2 in Board of Trade Letter of 8th August, 1914.)

Provided that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency shall be reduced in the like proportion.

(Enclosure No. 3 in Board of Trade letter of 8th August, 1914, was the Railway Executive Committee letter of 6th August, 1914, Document No. 2.)

(5)

F. 175.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

9th August, 1914.

Dear Sir,

We understand from the statements you made to us to-day that there is some apprehension on the part of the Advisers of the Government that advantage may be taken by some Companies if the settlement provisionally come to with the Government as to the basis of compensation under Section 16 of the Regulation of Forces Act, 1871, to spend abnormal sums out of revenue on the maintenance and renewal of their lines and stock.

I have to say that while the Executive Committee cannot believe that any Company would be capable of acting in such a manner, they have from the first regarded it as an obligation of honour to protect the Government against the possibility of such an event, and they had before your visit already taken steps to safeguard the position of the Government in this respect.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman, Executive Committee.

The President,
Board of Trade.

(6)

F. 175.

BOARD OF TRADE (RAILWAY DEPARTMENT),
7, WHITEHALL GARDENS, LONDON, S.W.

21st August, 1914.

Sir,

I am directed by the Board of Trade to advert to their letter of the 8th August on the subject of the Agreement come to with the Railway Executive Committee as to the basis on which compensation is to be payable to the Railway Companies in respect of the use of their lines under the Regulation of the Forces Act, 1871, and I am to state for the information of the Lords Commissioners of His Majesty's Treasury that that Agreement contained no provision with regard to any payments being made on account to the Companies prior to the termination of the period during which possession is taken of the lines by the Government.

It would, however, appear possible that the financial position of some of the Companies may render some payment on account desirable, and a memorandum* is enclosed, showing certain points raised by the Scottish Railway Companies, indicating the desirability in their view of payments of a portion of the compensation due at intervals of three months.

Under the arrangements made by the Committee no charges are being made by the Companies for the carriage of naval and military personnel and stores, other than stores forwarded by Contractors, and for this reason the surplus receipts of the Companies are, as stated in the memorandum, largely reduced, and the financial position of the Companies is consequently weakened.

In these circumstances the Board would be glad if you would move Their Lordships to consider whether, should the necessity arise, they would agree to the payment on account

* This document is not reproduced. It merely gave details of the financial position of the Scottish Railway Companies.

at the expiration of three months of a portion of the ascertained deficiency in net receipts either to the Railway Companies collectively or to such Company or Companies as may particularly require assistance.

I am, however, to add that owing to alterations in the methods of accounting between the Companies which have been adopted since the Railways have been worked collectively, the deficiency in the case of a particular Company could only be ascertained approximately.

I have the honour to be, Sir,

Your obedient servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

(7)

F. 175.

BOARD OF TRADE.

11th September, 1914.

Sir,

I am directed by the Board of Trade to advert to their letters of the 8th and 21st August on the subject of the Agreement come to with the Railway Executive Committee as to the basis on which compensation is to be payable to the Railway Companies under the Regulation of the Forces Act, 1871, and I am to state for the information of the Lords Commissioners of His Majesty's Treasury that they have received further representations from the Railway Companies with regard to that Agreement and also with regard to payments on account.

It was represented at a meeting with the Railway Companies, at which the Board had the assistance of Sir William Plender, that a clear understanding between His Majesty's Government and the Railway Companies as to the meaning to be attached to the words "net receipts" in the Agreement would save much future difficulty and would also probably render unnecessary a separate agreement being entered into with each Company.

The Railway Companies at first suggested that "net receipts" should mean "net income" as shown in Form 8 of the Accounts scheduled to the Railway Companies (Accounts and Returns) Act, 1911; but a counter-suggestion was made by Sir William Plender that the whole of the items in that account under the heading "Miscellaneous Receipts (Net)" should be omitted. Some of the items are constant or nearly so, and in a comparison of like periods of different years would cancel each other; others are trifling in amount, and one—viz., "General Interest"—raises a question of considerable difficulty, as interest on a Company's credit balance is treated as a revenue receipt, whilst interest on an overdraft is not treated in the accounts as working expenditure. The item is one that will in the present course of events largely diminish, and its omission is therefore disadvantageous to the Companies. The Companies are, however, willing to agree to the omission of this and all other items under the headings of "Miscellaneous Receipts (Net)" if H.M. Government is prepared to make monthly payments on account of the liability due to the Companies.

It is represented that in the ordinary course of events many Companies after payment of dividends have large debit balances at their bankers, and that these debits are cleared off by the receipts of the following month or months, but that this is not now taking place. Large quantities of traffic for naval and military purposes are being carried without payment, and additional working expenditure is being incurred for similar purposes. Traders also are not at present paying their traffic accounts readily, though in this respect an improvement is expected; and as a result of the causes set out the Companies debit balances are not being reduced and the sums due for interest thereon are accumulating.

A partial remedy for this state of affairs would be the payment by the Government monthly of the estimated liability, and the Companies ask that the payment should be a full and not a proportionate one.

The estimated liability for August will not be known until about the middle of October, when the liability for another month and a half will have accrued, and this in the view of the Railway Companies would secure the Government from any loss in the event of the amount of the liability to the Companies for the month of August being overestimated. In future months the estimate for each month would be ready by the end of the following month, and in that case there would be still a month's liability accrued after the date to which the estimate was made up.

The Board are of opinion that this would sufficiently secure the Government against temporary loss through overestimates. It would also in the opinion of the Board be a great advantage to have a clear understanding as to the meaning attached to the term "net receipts" and that which has been suggested by Sir W. Plender, and which the Companies are prepared to accept subject to the estimated liability being paid monthly, will simplify the preparation of accounts and will on the whole be advantageous to the Government.

In these circumstances the Board of Trade would be glad if you would move Their Lordships to sanction the following arrangements—viz., That "net receipts" should mean the net receipts shown in Form No. 8 less the items under the headings "Miscellaneous Receipts (Net)," and that the estimated liability should be paid monthly in full at a date not less than one month after the period to which the account is made up.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) H. LLEWELLYN SMITH.

The Secretary,
Treasury.

NOTE.—On 31st August and 12th September, 1914, Sir William Marwood wrote to the Railway Executive Committee asking whether the Boards of all the Railway Companies had notified their acceptance of the Agreement come to between the Government and the Railway Executive Committee.

(8)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

13th September, 1914.

Dear Mr. Marwood,

COMPENSATION PAYABLE UNDER ACT OF 1871.

With reference to your letters of the 31st ult. and 12th inst., I am glad to be able to inform you that every Company taken over by the Government has signified its acceptance of the agreement come to between the Government and the Executive Committee, with the exception of one—i.e., North Sunderland Railway Company—who say that they are not yet in a position to write definitely with regard to the proposals, but they think we may safely assume the concurrence of their Company to the basis.

Yours faithfully,

(Signed) GILBERT S. SZLUMPER,
Railway Joint Secretary, Executive Committee.

Board of Trade,
S.W.

(9)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

21st November, 1914.

Dear Mr. Marwood,

Referring to my letter of the 13th September, I am glad to be able to tell you that the North Sunderland Railway Company have at last signified their assent to the Agreement come to with the Government and the Executive Committee. This completes the list.

Yours faithfully,

(Signed) GILBERT S. SZLUMPER,
Railway Joint Secretary, Executive Committee.

W. F. Marwood, Esq.,
Board of Trade, S.W.

(10)

F. 175.

TREASURY CHAMBERS.

9th October, 1914.

19141/14.

Sir,

The Lords Commissioners of His Majesty's Treasury have given their careful consideration to your letter of the 11th ultimo and to Mr. Marwood's letter of 21st August last relative to the Agreement between His Majesty's Government and the Railway Companies, and I am now directed to request you to lay before the Board of Trade the following reply:

The questions raised in your letter were discussed *inter alia* at a Conference held last month at which the Comptroller and Auditor-General and representatives of your Department, the Customs and Inland Revenue and this Board were present, and the conclusion come to, with which My Lords are in agreement, was that it would be justifiable to make monthly payments in full of the estimated Government liability under the Agreement, it being understood that the August accounts will be sent in by about 15th October, the September accounts by the 31st October, and subsequent accounts by the end of the month following the month to which they relate, and that payment will be made only after the several monthly accounts have been examined at the Board of Trade and transmitted to this Department. Their Lordships' decision on this point must, however, be subject to reconsideration after the 31st March next, and to there being from time to time money available out of the sums placed at Their Lordships' disposal by Parliament.

As regards the other proposal in your letter to the effect that in connection with the Agreement "net receipts" should mean the net receipts shown in Form of Accounts 8 of the Railway Companies (Accounts and Returns) Act, 1911, less the items under the heading "Miscellaneous Receipts (Net)," I am to say that, although Their Lordships would have preferred that the receipts from certain classes of hotels should have been excluded as outside the terms of the Agreement, they will not press this point, as they understand that in general practice the receipts from hotels, refreshment rooms and dining-cars are lumped together in the Railway accounts, and to distinguish them from the rest would be a matter of much difficulty. In these circumstances, and having regard to the simplicity of accounting which is obtained by the method suggested in your letter, My Lords agree to the proposal.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,

Board of Trade.

(11)

F. 175.

BOARD OF TRADE.

12th October, 1914.

Sir,

With reference to the letter from this Department of the 8th August last on the subject of the Agreement as to the compensation to be paid by His Majesty's Government to those Railway Companies of whose railroads possession has been taken under the Regulation of the Forces Act, 1871, I am directed by the Board of Trade to state that they have been in communication with the Treasury as to the definition of net receipts for the purposes of the Agreement.

The Treasury have now agreed that, for the purposes of the Agreement, net receipts shall, as proposed by the Railway Executive Committee, be taken to mean the net receipts covered by the first seven items in Account No. 8 of the First Schedule to the Railway Companies (Accounts and Returns) Act, 1911, and that "Miscellaneous Receipts (Net)" in that account shall not be included.

The Treasury have also intimated that they are prepared to make monthly payments in full of the estimated Government liability under the Agreement, it being understood that the August accounts will be sent in about the 15th October, the September accounts by the 31st October, and subsequent accounts by the end of the month following the month to which they relate, and that payment will be made only after the several monthly accounts have been examined at the Board of Trade and transmitted to the Treasury.

The decision on this point is, however, subject to reconsideration after the 31st March next, and to there being from time to time money available out of the sums placed at the disposal of the Treasury by Parliament.

I am, Sir,
Your obedient Servant,
(Signed) W. F. MARWOOD.

H. A. Walker, Esq.,
Railway Executive Committee,
35, Parliament Street, S.W.

(12)

F. 175.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.
15th October, 1914.

Sir,

I have to acknowledge receipt of your letter of the 12th instant on the subject of the Agreement as to compensation to be paid by His Majesty's Government to those Railway Companies of whose railroads possession has been taken under the Regulation of the Forces Act, 1871.

This letter was submitted to the Executive Committee at their meeting on the 13th instant, and I am requested on their behalf to ask you to thank the President of the Board of Trade for the manner in which the Railway Companies have been met upon this question.

I am, Sir,
Your obedient Servant,
(Signed) H. A. WALKER,
Acting Chairman, Executive Committee.

W. F. Marwood, Esq.,
Board of Trade,
Whitehall, S.W.

(13)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.
15th October, 1914.

(Instruction No. 108.)

Dear Sir,

COMPENSATION PAYABLE UNDER THE REGULATION OF THE FORCES ACT, 1871.

On the 8th August, 1914, I wrote the Secretary of your Company with reference to the subject of the compensation payable by the Government in respect of their taking over of the Railways, and enclosed an extract from the Minutes of the Meeting of the Executive Committee held on the 6th August, 1914.

Although that Minute contained a complete statement of the principle on which the compensation payable to the Railway Companies under the Act of 1871 should be ascertained, it was inevitable that important questions of detail would arise in reference to the carrying out of the bargain.

One very important question was the subject of general interest.

It was obvious that however satisfactory the basis of compensation might be, the adjustment of the amount and its payment at the end of the period of Government control was a different thing from the normal accrual day by day of cash receipts equalling those accruing in the corresponding period of 1913.

It therefore became a matter of great importance to induce the Government if possible to assent to periodical payments on account instead of postponing the settlement with them until after the period of Government control had expired.

Another matter of importance was the question of exactly what should be included in the expression "aggregate net receipts" of all the Railways taken over.

It was known to be the view of the Government that those receipts should be taken to mean the net receipts covered by the first seven items in Account No. 8 of the First Schedule to the Railway Companies (Accounts and Returns) Act, 1911; and that Miscellaneous Receipts in that account should not be included.

This matter was very carefully considered by the Executive Committee in conjunction with a Committee of Railway Accountants, and the conclusion arrived at was that if the Railway Companies could secure the great advantage of monthly payments on account of the compensation ultimately due, they might well concede the definition of "aggregate net receipts" desired by the Government.

This result has now been obtained, and I enclose a copy of a letter addressed to the Executive Committee by the Board of Trade setting forth the arrangement made with the Government.*

Please acknowledge receipt.

Yours faithfully,
(Signed) H. A. WALKER,
Acting Chairman, Executive Committee.

The General Manager,
—— Railway.

* Board of Trade letter of 12th October, 1914, enclosed, Document No. 11.

(14)

BOARD OF TRADE.
26th January, 1915.

R. 896.

Sir,

I am directed by the Board of Trade to state, for the information of the Lords Commissioners of His Majesty's Treasury, that the President recently received a deputation from the Railway Executive Committee, who raised certain points in connection with the Agreement for compensating the Companies of whose undertakings His Majesty's Government have taken possession under the Regulation of the Forces Act, 1871.

(1) As regards the application of the Agreement to the year 1915, it appeared that the Executive Committee thought it possible that there might be some doubt as to the meaning of the term "the previous year" in the Agreement, though they stated that it is clearly in their minds when the Agreement was made that the comparison of net receipts should be with 1913.

The Board of Trade are of opinion that while the Agreement did not expressly contemplate a continuance of the period of control beyond the end of 1914, there is nothing in its wording which makes it inapplicable to 1915; that "previous year" can mean only 1913, being the year previous to that in which the control began; and that any other interpretation would hardly be consistent with the intention of the proviso. They presume that the Lords Commissioners will concur in this view.

* * * * *

I have the honour to be, Sir,
Your obedient Servant,
(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

(15)

TREASURY CHAMBERS.
9th March, 1915.

5146/15.

F. 179.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Marwood's letters of the 26th January last (R. 896 and R. 2341) relative to the Government Agreement with the Railway Companies, and I am to make the following reply:

My Lords agree that the term "the previous year" in the Agreement is to be construed throughout as referring to 1913.

* * * * *

I am, Sir,
Your obedient Servant,
(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(A copy of this letter was forwarded to the Railway Executive Committee on 12th March, 1915. The second letter from the Board of Trade referred to in this letter did not relate to the general Agreement, but to the settlement of a claim for a particular month.)

(16)

BOARD OF TRADE,

WHITEHALL GARDENS, S.W.

5th September, 1916.

My dear Claughton,

Many thanks for your private letter. The best reply I can give you under the circumstances is to tell you what was decided at this morning's Cabinet. First, we agreed that a concession to the railwaymen was advisable—much as we all regretted the short life of the "duration of the war" Agreement. Second, the General Managers Committee seemed to us to be the proper instrument for negotiating with the men. Third, they should do their best under the difficult conditions now surrounding the problem. Fourth, the Government undertakes to extend the period of guarantee of net receipts to two years after the termination of the War.

You may show this letter, if you think fit, to any of your colleagues who may care to see it.

Yours sincerely,

(Signed) WALTER RUNCIMAN.

NOTE.—Sir Gilbert Claughton was at this time Chairman of the Railway Companies Association.

II.—PROPORTION OF WAR BONUS BORNE BY THE RAILWAY COMPANIES.

Document Number.	PAGE
(17) Letter of 24th February, 1915, from the Railway Executive Committee to the Board of Trade stating that the R.E.C. were prepared to recommend to controlled Railway Companies the acceptance of an arrangement with regard to war bonus on the basis :—	
(a) That the Companies shall bear 25 per cent. of the bonus allowances to men in the Conciliation Scheme.	15
(b) That the Government will agree to treat as a normal item in working expenses any other advances granted to other classes of Railway employees ; and	15
(c) That the Government would agree to the abolition of the " proviso " to the original Agreement as from the 1st January, 1915	15
18) Letter of 26th February, 1915, from the Board of Trade to the Railway Executive Committee stating that the Board see no objection to the Companies being informed that the Government are prepared to agree to the proposals made by the R.E.C. in their letter of 24th February, 1915, provided that all the Companies accept these conditions	15
(19) Letter of 6th March, 1915, from the Board of Trade to the Treasury explaining the position and asking for the covering sanction of the Treasury to the arrangements made	15
(20) Letter of 18th March, 1915, from the Treasury to the Board of Trade sanctioning the above arrangements	16
(21) Letter of 22nd March, 1915, from the Board of Trade to the Railway Executive Committee informing them that the Treasury agree to the above arrangements	17
(22) Extract from letter of 9th April, 1915, from the Railway Executive Committee to the Board of Trade stating that all the Railway Companies had agreed to accept the conditions	17
(23) Letter of 29th October, 1915, from the Railway Executive Committee to the Board of Trade suggesting that in view of the increase of the bonus to 5s. a week all round the proportion borne by the Companies should be calculated at 12½ per cent. of the increased bonus payments to the Conciliation men instead of 25 per cent. of the original bonus	17
(24) Letter of 5th November, 1915, from the Board of Trade to the Treasury asking for their concurrence in the revised arrangements suggested above	18
(25) Letter of 27th November, 1915, from the Treasury to the Board of Trade agreeing to the revised arrangements proposed above	18
(26) Letter of 29th November, 1915, from the Board of Trade to the Railway Executive Committee informing them that the Treasury concur in the revised arrangements	19
(27) Communication of 31st May, 1917, from the Railway Executive Committee to the Board of Trade stating that the Companies had been instructed that the war bonus payments should be commuted as from the 1st January, 1917, on the basis of the amount chargeable in respect of the year 1916	19
(28) Letter of 7th June, 1917, from the Board of Trade to the Treasury informing them of the above arrangement	20
<i>Proposal that the Railway Companies should be relieved from the Payment of any portion of the War Bonus.</i>	
(29) Letter of 21st September, 1917, from the Railway Executive Committee to the Board of Trade suggesting that Railway Companies might be relieved, as from the 1st August, 1917, of the obligation to pay 25 per cent. of the original war bonus	20
(30) Letter of 9th November, 1917, from the Railway Executive Committee to the Board of Trade giving further arguments in support of their proposals	22
31) Letter of 14th February, 1918, from Sir Thomas Heath to Sir William Marwood explaining that the proposal could not be agreed to	22
(32) Letter of 22nd February, 1918, from Sir William Marwood to Sir Herbert Walker, forwarding a copy of Sir Thomas Heath's letter	23

F. 191.

(17)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.,

24th February, 1915.

Sir,

SPECIAL BONUS TO STAFF.

Referring to previous correspondence and conversations on the above subject, I beg to inform you that the Executive Committee are now prepared formally to recommend to the Railway Companies under control the acceptance of an agreement with the Government on the following basis :—

- (1) The Company to agree to bear twenty-five per cent. (25%) of the bonus allowance to men in the Conciliation Scheme as defined by the Agreement signed on the 13th February, 1915.
- (2) The Government to agree to treat as a normal item in working expenses any other advances granted to other classes of Railway employees.
- (3) The Government to agree to abolish the proviso as from the 1st January, 1915, which, of course, means that the net receipts for the year 1913 without deduction will constitute the basis of comparison for the purposes of compensation.

I shall be glad to hear from you whether the Executive Committee are authorised, when communicating their recommendation to the Companies, to state that the Government are prepared to accept the terms.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,*Acting Chairman, Executive Committee.*

The President,
Board of Trade,
London, S.W.

(18)

R. 2547.

F. 191.

BOARD OF TRADE,

26th February, 1915.

Sir,

I am directed by the Board of Trade to refer to your letter of the 24th February, specifying the terms of an agreement with the Government, of which the Railway Executive Committee are prepared formally to recommend the acceptance to the Railway Companies under control in connection with the payment of a special bonus to the staff, and, in reply, I am to state, for the information of the Committee, that they see no objection to the Companies being informed that the Government are prepared to agree on the conditions proposed, provided that all the Companies accept them.

I am, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

Sir H. A. Walker,
Railway Executive Committee.

(19)

R. 2547.

F. 191.

BOARD OF TRADE,

6th March, 1915.

Sir,

I am directed by the Board of Trade to state, for the information of the Lords Commissioners of His Majesty's Treasury, that the Railwaymen's Unions recently approached the Railway Companies of Great Britain with a view to the grant of a special increase of wages in view of the rise in prices and the increased strain of work since the war began.

The Unions asked for an all-round increase of 5s. a week, but after negotiations they accepted an offer by the Companies to pay a war bonus of 3s. and 2s. a week to employees receiving less than 30s. and 30s. or more respectively. This arrangement applies to all men included in the Railway Conciliation Scheme—that is, the operating staff generally.

The Board regard this as a fair settlement. In view, however, of the fact that some increase of wages would probably have been necessary in ordinary circumstances, it did not appear to them that the whole of the war bonus should be included in the working expenses of the Railways for the purpose of arriving at the amount payable under the Government guarantee.

They informed the Railway Executive Committee of their view, and negotiations took place with a view to settling the proportion in which the cost of the bonus should be borne by the Government and the Companies respectively.

After negotiations, of the progress of which Their Lordships were informed from time to time, it was finally agreed by the Railway Executive Committee that they would recommend the Railway Companies whose undertakings have been taken over under the Regulation of the Forces Act, 1871, to accept the following conditions:—

- (1) The Company to agree to bear twenty-five per cent. (25%) of the bonus allowance to men in the Conciliation Scheme.
- (2) The Government to agree to treat as a normal item in working expenses any other advances granted to other classes of Railway employees.
- (3) The Government to agree to abolish as from the 1st January, 1915, the proviso to the Agreement under which the sum payable in compensation is reduced in proportion to the decline in net receipts in the first half of 1914 as compared with the like period of 1913.

The abolition of the proviso will have the advantage of doing away with the troublesome questions which have arisen regarding the application of the Agreement to the various special services performed by the Companies for the War Office and Admiralty outside their ordinary functions.

As regards the financial effect of the arrangement, so far as the Board are able to form an estimate, one quarter of the war bonus to the operating staff which the Companies will now pay themselves, and which will not be included in their working expenses for the purposes of the Agreement, will be at the rate of about £750,000 a year, whereas the amount which the Government would secure by the retention of the proviso would only be at the rate of about £450,000 a year, so that the net effect of the arrangement will be a considerable saving.

As regards grades other than those included in the Conciliation Scheme, I am to point out that the rates of wages paid are determined to a large extent by the rates paid to men engaged in similar work by private employers, and the Board consider that any increases which it may be found advisable to grant may properly be treated as working expenses for the purpose of the Agreement.

The terms set out above are, in the opinion of the Board, fair to all the parties concerned, and they would be glad if Their Lordships would be so good as to give their covering sanction to the arrangement, if accepted by all the Railway Companies.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

F. 191.

(20)

TREASURY CHAMBERS.

18th March, 1915.

6528/15.

Sir,

In reply to Mr. Marwood's letter of the 6th instant (R. 2547) I am directed by the Lords Commissioners of His Majesty's Treasury to request you to convey to the Board of Trade Their Lordships' sanction to the terms of the new arrangement, described in the letter under reply, which has been made with the Railway Companies, with effect from 1st January last.

I am, Sir,

Your obedient servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

R. 3626.
F. 191.

(21)

BOARD OF TRADE.

22nd March, 1915.

Sir,

With reference to the letter from this Department of the 26th February (R. 2547) respecting the terms of the proposed new arrangement between the Government and the Railway Companies under control, I am directed by the Board of Trade to transmit to you for the information of the Railway Executive Committee the enclosed copy of a letter from the Treasury on the subject.

The Board will be glad to be informed as soon as all the Companies have agreed to accept the conditions proposed.

I am, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

Sir H. A. Walker,

Railway Executive Committee.

(Treasury letter of 18th March, 1915, enclosed, Document No. 20.)

(22)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

9th April, 1915.

Sir,

SPECIAL BONUS TO STAFF.

With reference to the Railway Executive Committee letter of the 24th February and your letters of the 26th February and 22nd March (R. 3626), respecting the terms of the proposed new arrangement between the Government and the Railway Companies under control, I have to say that we have now heard from all the Railway Companies concerned to the effect that they agree to accept the conditions which are shown in detail in the letter of the 24th February above referred to.

* * * * *

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,*Acting Chairman.*

The President,

Board of Trade,

London, S.W.

(23)

F. 191.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

29th October, 1915.

Sir,

PAYMENT OF WAR BONUS.

You will be aware that when the first arrangement in regard to the payment of the war bonus was entered into it was understood that the Railway Companies would bear 25 per cent. of the war bonus to all men who came within the grades comprised under the Conciliation Scheme.

This war bonus has now been increased from 3s. to men under 30s. per week and 2s. to men 30s. per week and over to an all-round bonus of 5s. per week, and the Government have undertaken that the whole of the increased cost shall be chargeable against working expenses.

Our Accountants have now drawn our attention to the impracticability in the case of the larger Companies of continuing the arrangement to charge against the Railway Companies net revenue the 25 per cent. of the original bonus, and they have suggested

(B 16959)

B

that we should ask you, in the new circumstances, to agree to the Companies arriving at their liability under the arrangement referred to by assuming that such liability is equal to 12½ per cent. of the increased war bonus payments to the Conciliation men as from the date from which the increase has been granted:

This will very considerably modify the accounting, and I shall be glad to hear that the Treasury will accept the proposal.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman.

The President,
Board of Trade, S.W.

R. 12122.

(24)

F. 191.

BOARD OF TRADE.

5th November, 1915.

Sir,

With reference to previous correspondence respecting the Agreement between His Majesty's Government and the Railway Companies of whose lines possession has been taken under the Regulation of the Forces Act, 1871, I am directed by the Board of Trade to transmit herewith, for the information of the Lords Commissioners of His Majesty's Treasury, a copy of a letter which has been received from the Railway Executive Committee asking for a modification of the existing arrangement as regards the payment by the Companies of a portion of the war bonus to men coming within the Conciliation Scheme.

The Board understand that before the recent increase in the war bonus the amount paid as bonus to men in the Conciliation Scheme was simply totalled at the Companies, head offices and 25 per cent. deducted. In future, however, as the men who received the original bonus of 2s. or 3s. now all receive 5s., reference would have to be made in each case to see whether 6d. or 9d. should be deducted, and for this work the Companies would require to employ additional clerical staff. They suggest, therefore, that they should be permitted to make an all-round deduction of 12½ per cent.

As the number of men who received the 3s. bonus is slightly the larger, this would mean some reduction in the proportion of the total paid by the Companies themselves, but on the other hand the additional staff would be saved.

The Board of Trade would be glad to be favoured with the views of the Lords Commissioners on this proposal.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) GARNHAM ROPER.

The Secretary,
Treasury.

(Railway Executive Committee letter of 29th October, 1918, enclosed, Document No. 23.)

F. 191.

(25)

26291/15.

TREASURY CHAMBERS.

27th November, 1915.

Sir,

In reply to Mr. Roper's letter of the 5th instant (R. 12122), the Lords Commissioners of His Majesty's Treasury direct me to state, for the information of the Board of Trade, that in the circumstances represented they agree that the liability of the Railway Companies in respect of the war bonus paid to their employees may be assumed to be equal to 12½ per cent. of the increased war bonus payments to the Conciliation men, the new arrangement to come into operation as from the date from which the increased bonus has been granted.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(26)

R. 13484.
F. 191.

BOARD OF TRADE.
29th November, 1915.

Sir,

With further reference to your letter of the 29th October on the subject of the proposed modification of the existing arrangement as regards the payment by the Railway Companies of a portion of the war bonus to men coming within the Conciliation Scheme, I am directed by the Board of Trade to transmit to you, for the information of the Railway Executive Committee, the enclosed copy of a reply from the Treasury to a communication addressed to them from this Department in the matter.

I am, Sir,

Your obedient Servant,

(Signed) GARNHAM ROPER.

Sir H. A. Walker,

Railway Executive Committee.

(Treasury letter of 27th November, 1915, enclosed, Document No. 25.)

Note.—The war bonus to adult male staff in the Conciliation Scheme was further increased on 11th September, 1916, to 10s. per week, and the proportion borne by the Railway Companies was therefore reduced to 6½ per cent. As from 9th April, 1917, the bonus was increased to 15s. per week and the Railway Executive Committee wrote to the Board of Trade as follows:—

(27)

F. 191.
P. 1376/8.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

31st May, 1917.

Sir,

WAR BONUS TO RAILWAYMEN.

With reference to the latest bonus arrangements—

In view of the difficulty of allocating what proportion of the bonus is now payable by the Government and what proportion by the Railway Companies in accordance with the arrangements come to in 1915 (see your letter R. 2547 of the 26th February, 1915), we have issued the enclosed circular letter to the Companies, and will be glad if you will please notify the Treasury of its contents.

I am, Sir,

Your obedient Servant,

(Signed) GILBERT S. SZLUMPER,

Secretary.

The Assistant Secretary,
(Railway Department),
Board of Trade,
7, Whitehall Gardens,
Westminster, S.W.

(Enclosure to Document No. 27.)

(Circular Letter No. 984.)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

31st May, 1917.

Dear Sir,

WAR BONUS TO RAILWAYMEN.

With reference to Circular Letter No. 916, will you please note that, in view of the difficulty of arriving at the proportion of the Conciliation War Bonus (as recently increased) to be borne by the Companies, it has been decided that as from the 1st January, 1917, such proportion be commuted on the basis of the amount chargeable to the controlled

(B 16959)

B 2

Companies in respect of the year 1916 under Railway Executive Committee Circular Letters Nos. 211, 212, 224, 248, 279, 443, and 692. This will render unnecessary the exchange of accounts between Companies in respect of the Company's proportion of war bonus as from 1st January, 1917, and any accounts already rendered in respect of the current year must be adjusted in the agreed commuted figure.

2. It has also been decided that as from the 1st January, 1917, all war bonus payments should follow the salaries and wages, the amount chargeable to the Company being entered as a credit to Working Expenses in Account No. 1 of the Annual Account of the Net Receipts and in the Monthly Estimates of Revenue Receipts and Expenditure under the heading of "War Bonus, Conciliation Scheme—Company's Proportion."

3. The necessary adjustments under this Circular Letter should be made in the Estimate of Revenue Receipts and Expenditure for the month of May, 1917.

4. Please arrange accordingly and acknowledge receipt.

Yours faithfully,

(Signed) H. A. WALKER,

Acting Chairman.

The General Manager,
——— Railway.

R. 2478.
F. 191.

(28)

BOARD OF TRADE,

7th June, 1917.

Sir,

With reference to previous correspondence respecting the agreement between His Majesty's Government and the British Railway Companies of whose undertakings possession has been taken under the Regulation of the Forces Act, 1871, I am directed by the Board of Trade to transmit to you, for the information of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a letter from the Railway Executive Committee forwarding copy of a circular letter which they have issued to the Railway Companies in regard to the proportion that is payable by the Companies of the war bonus to railwaymen.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury.

(Railway Executive Committee letter of 31st May, 1917, enclosed, Document No. 27.)

(29)

F. 192.
P. 826/1.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

21st September, 1917.

Dear Sir,

WAR BONUS TO RAILWAY EMPLOYEES. PROPORTION BORNE BY THE RAILWAY COMPANIES.

Some few weeks ago I spoke to you in regard to a matter that has caused a good deal of concern on the part of the Railway Companies generally—viz., the payment by the Railway Companies out of their net revenue of a portion of the original war bonus granted to men coming within the scope of the Conciliation Scheme. You asked that the views of the members of this Committee should be placed before you in writing, and this I now have pleasure in doing.

The facts which led up to the arrangement now complained of are as follows:—

The original agreement between the Government and the Railway Companies entered into in the first week of the war reads as under:—

"The question of the basis on which compensation under the Act of 1871 should be ascertained was discussed, and—

"It was RESOLVED to recommend that to ascertain the compensation payable the aggregate net receipts of all the Railways taken over during the period

- “for which they are taken over shall be compared with a similar aggregate for
 “the corresponding period of the previous year. The ascertained deficiency
 “shall be the amount of the compensation due. Provided that if the aggregate
 “net receipts for the first half of the year 1914 are less than the aggregate net
 “receipts for the first half of the year 1913, the ascertained deficiency shall be
 “reduced in the like proportion.
 “Any question as to the amount of the deficiency shall, in default of agreement, be
 “determined by the Railway and Canal Commission.
 “The sum so payable as compensation together with the net receipts of the railways
 “taken over shall be distributed among the Railway Companies in proportion
 “to the net receipts of each Company during the period with which comparison
 “is made.”

The actual decline in the net receipts of all the controlled Railways for the first half of 1914 compared with the first half of 1913 was £732,500—3·6 per cent. of the total net receipts for the 1913 period, and had the original agreement been kept to, any deficiency claimed by the Railway Companies from the Government would have been reduced by this percentage.

In actual practice, however, had all Government traffic been paid for during the period of the war, the net earnings of the Railway Companies would have shown a considerable increase, so that there would have been no deficiency from which to make any deduction. The Railway Companies would therefore have been entitled to the same net revenue as in 1913.

In January, 1915, the Railway Companies asked that the proviso contained in the Agreement should be cancelled on the plea that they were actually carrying more traffic than in 1913 instead of less.

When the first war bonus was granted to the men in the Conciliation Scheme the Government considered that the Railway Companies should bear a part of the cost thereof on the plea that had there been no war the Companies would inevitably have been compelled to give increases to their staff through the operation of the Conciliation Boards.

The members of this Committee protested strongly at the time against what they considered to be an unjust demand, and a compromise was ultimately arrived at, the Companies agreeing to bear 25 per cent. of the original bonus on the understanding that the obligation under the proviso in the Agreement of August, 1914, should be cancelled. The Railway Companies are still paying this 25 per cent. of the original war bonus. These payments amount to £450,000 per annum.

Now that the war bonus has disappeared under the arrangement entered into with the Unions, with the consent of the Government, as from August 1st, 1917, we feel strongly that the burden imposed upon the Railway Companies should be removed, and that the arrangement under which the Companies bear 25 per cent. of the original bonus should no longer obtain.

In support of this we would draw your attention to some figures which we have had prepared and which are included in the summary* attached to this letter. I am to say that these figures are more or less in the nature of estimates, and that those under the heading of “Arrears of Maintenance and Renewal Work”—Abstracts ‘A’ and ‘B’ will, in all probability be exceeded. The amounts due for interest on capital expenditure upon works brought into use subsequent to 31st December, 1912, are also subject to revision.

The figures, however, disclose that whereas the total amount paid by the Government to the Railway Companies as a result of the control of the Railways from the commencement of the war to the 30th June, 1917, has been under £40,000,000, the amount of free services rendered to the Government has been nearly £57,000,000, showing that during the period under review the Government benefited by the “Control” to the extent of about £17,000,000.

We shall be glad to hear that we may advise the Railway Companies as from the 1st August, 1917, they are relieved of the obligation of bearing 25 per cent. of the original war bonus.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

The President,
 Board of Trade.

* Not printed.

(30)

F. 192.
P. 826/1.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

9th November, 1917.

Sir,

I have to refer to our letter of the 21st September in which a request was contained that the Railway Companies should be relieved of the obligation of bearing 25 per cent. of the original war bonus. To this letter we have not yet received any reply.

We would urge that our application should be acceded on the grounds of equity, and if any further argument or reasons are required, we would plead that in view of the enormous amount of work that has been put upon the Railways, the shareholders who have found the capital which has enabled that work to be carried out for the benefit of the State should receive every consideration from the State.

As a matter of fact, Railway shareholders are, generally speaking, receiving less dividend than they did in 1913, and we think it only right to say that they are, in all probability, the only large community of the State which, while their property is being used for the full benefit of the State, are in a worse position than they were pre-war.

Then, again, we would put forward that the circumstances are very different to those contemplated when the original agreement was made. At that time it was anticipated that the Government would become heavy debtors to the Railway Companies, and it was only natural that the Government should ask that their liability might be reduced proportionately to the falling off in traffic that was apparent in the first half of 1914 as compared with the corresponding half of the basis period.

These anticipations, however, have been entirely falsified, and the Government, instead of assuming any liability, have, after taking everything into consideration, reaped substantial advantages out of the arrangement come to.

Another argument we might urge is that had the Railway Companies not been under Government control, they would have been entitled to have raised their rates to correspond with the increase in their working expenditure, due to increased wages, and increased price of materials. Such a course, however, has been averted partly owing to the economies the Railway Companies have been able to effect as a result of the present arrangement, and partly as a result of the alteration in the class of traffic which has been passed over the Railways. Therefore the traders as well as the State and the general body of consumers have also benefited as a result of the present arrangements.

It is true that the public have had to pay a heavy increase for travelling, but this increase, as is well known, was not established for the purpose of creating revenue, but for the purpose of preventing unnecessary travelling on the part of the public.

In view of the great advantages which the present control of the railways by the Government has produced to the State and to the trade of the country, we would strongly urge that the suggestion contained in our letter of the 21st September should receive favourable consideration, and that the request contained therein should be acceded to, in order that the shareholders in the various Railway Companies may, as far as possible, be placed in as good a position as obtained in the year 1913.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman.

The President,
Board of Trade.

(31)

F. 192.

TREASURY,

14th February, 1918.

Dear Marwood,

I have now looked up what occurred with the Railway representatives when the Government Agreement with the Railways was modified in 1916. I find that in December, 1915, Sir Guy Granet handed to me a document in which there were six proposals outlined,

which it was suggested should be embodied in a fresh Agreement. Among these six proposals was one that the whole cost of the war bonus should be reckoned in working expenses. On 29th March, 1916, Sir Alexander Butterworth saw me and Bradbury and discussed these proposals: we then definitely told him that the Treasury were not prepared to concede the proposal that the whole war bonus should be regarded as working expenses in view of the definite bargain come to when the first bonus was agreed to. Sir Alexander wrote to Sir H. Walker on 30th March and explicitly mentioned the Treasury refusal to agree to this point. On the 20th June, 1916, after various interviews had passed between the Treasury and the Railway representatives, Sir Alexander wrote to me and said that the Companies represented on the Railway Executive Committee "are prepared to accept the proposals of the Treasury as set out in my letter of the 30th March to Sir Herbert Walker."

Sir Alexander also suggested in the same letter of the 20th June that the proposals of the Railway Companies which had been agreed to by the Treasury* should be embodied in a formal letter addressed by the Board of Trade to the Acting Chairman of the Railway Executive Committee. This letter, as you are aware, was drafted, and has been agreed to by the Railway Companies. No reference was made in it to the war bonus question, and the history of the negotiations showed that owing to the Treasury refusing to agree to the Railways' proposal, it was not thought necessary to make any mention of the matter in the final letter embodying the agreed points. I think, however, that it was perfectly clear right through that the Treasury having agreed to the other important matters raised by the Railways it was not intended by them to press the point about the war bonus.

Under these circumstances I think it is quite out of the question for the Treasury to regard the war bonus question as still open to discussion. We regarded the modification of the Agreement come to in 1916 as the final word; anyhow on all matters which had hitherto been fully discussed.

I return you the enclosures which you left with me,

Yours sincerely,

(Signed) T. L. HEATH.

Sir W. F. Marwood, K.C.B.

* These proposals are contained in Document No. 71.

(32)

R. 3664.

F. 192.

BOARD OF TRADE,
WHITEHALL GARDENS, S.W.
22nd February, 1918.

Dear Sir Herbert Walker,

The President asked me recently to ascertain what view the Treasury would hold as regards an application that no portion of the war bonus to railwaymen coming within the Conciliation Scheme should be borne by the Railway Companies. I accordingly went to the Treasury and discussed the matter with Sir Thomas Heath, and left with him your letters on the subject. He then referred to what took place at the time of certain negotiations between the Railway Companies and the Treasury, and he has now sent me a letter, of which I enclose a copy for your information.

Yours faithfully,

(Signed) W. F. MARWOOD.

(Sir Thomas Heath's letter of 14th February, 1918, enclosed, Document No. 31).

III.—APPROVAL OF THE INSTRUCTIONS FOR THE PREPARATION OF THE ACCOUNTS OF CONTROLLED RAILWAY COMPANIES.

[On the 18th December, 1914, the Board of Trade consulted the Treasury as to the approval of the proposed Memorandum of Instructions, the draft Instructions then suggested being, with the slight modifications indicated in the following correspondence, the same as those finally approved and printed below.]

Document Number:	PAGE
(33) Letter of 1st January, 1915, from the Treasury to the Board of Trade, approving the Instructions with certain slight modifications	25
(34) Letter of 2nd January, 1915, from the Board of Trade to the Railway Executive Committee, forwarding a copy of the Treasury Letter of 1st January, 1915	25
(35) Letter of 16th January, 1915, from the Railway Executive Committee to the Board of Trade, accepting in the main the modifications, but asking for certain assurances with regard to Arrears of Maintenance	26
(36) Letter of 19th January, 1915, from the Board of Trade to the Treasury, forwarding a copy of the Railway Executive Committee letter of 16th January, 1915	26
(37) Letter of 10th February, 1915, from the Treasury to the Board of Trade, agreeing to the Instructions and to the view expressed by the Railway Executive Committee as to Arrears of Maintenance	27
(38) Letter of 13th February, 1915, from the Board of Trade to the Railway Executive Committee, intimating that the Instructions had been approved by His Majesty's Government	27
(39) Memorandum of Instructions as approved—known as the Blue Book	28

Vide also Appendix XVI.

(33)

F. 182.
28657/14.

TREASURY CHAMBERS.
1st January, 1915.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Garnham Roper's letter of the 18th ultimo (R. 13676), relative to the draft Memorandum of Instructions to be issued by the Railway Executive Committee.

In reply I am to request you to inform the Board of Trade that, on the understanding that Mr. Gurney Fowler sees no material objection to the Memorandum, My Lords concur in its terms, subject to the following observations:

I. In substitution for Section 4 (e)* They suggest the following words:—

“ In the event of the Companies being of opinion that arrears of normal maintenance work have arisen during the control period, His Majesty's Government have undertaken to consider on their merits any representations submitted to Them; and, if necessary, a statement should be prepared at the end of the control period of any liabilities of this nature not included in the accounts prepared currently. (No such statement will be required in cases where provision is made for maintenance by carrying definite sums to a special fund in anticipation of actual expenditure.) ”

II. The form of the Certificate under Section 13 is a matter of some importance; and My Lords do not think that it would be literally accurate to say that the accounts had been prepared in accordance with the Agreement. They suggest the following form:—

“ We have examined the accounts attached and compared them with the books and vouchers of the Company. We certify that they are correct and that they have been prepared strictly in accordance with the Memorandum dated 1915 issued by the Committee of Chief Accountants with the approval of His Majesty's Government.”

III. As regards the signatures to be appended to the Certificate, My Lords would have preferred not to omit any of the three categories, viz.—Chief Accountants, Auditors, and Professional Accountants; and, even if it prove necessary to accept the signatures of *either* the Auditors *or* the Professional Accountants (in addition to those of the Chief Accountants), They think it essential that in every case the signature should be that of a person or firm having recognised professional qualifications.

I am, Sir,

Your obedient Servant,
(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

* Section 4(e) in the draft memorandum of instructions read as follows:—

SECTION 4 (e).

Arrears of Maintenance Work.

(e) A statement to be prepared at the end of the control period of the amounts not included in the accounts prepared currently for the purpose of obtaining payments on account of compensation in respect of arrears of normal maintenance work deferred during the control period.

R. 64.
F. 182.

(34)

BOARD OF TRADE.
2nd January, 1915.

Sir,

With reference to Sir A. Kaye Butterworth's letter of the 16th December forwarding copies of a draft Memorandum of Instructions respecting the preparation of Railway Companies' Accounts, I am directed by the Board of Trade to transmit to you, to be laid before the Railway Executive Committee, the enclosed copy of a letter which they have received from the Treasury in the matter.

I am, Sir,

Your obedient Servant,
(Signed) ERNEST G. MOGGRIDGE.

Sir H. A. Walker,
Acting Chairman,
Railway Executive Committee.

(Treasury letter of 1st January, 1915, enclosed, Document No. 33.)

(35)

F. 182.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.
16th January, 1915.

Sir,

Referring to your letter R. 64 of the 2nd instant, enclosing a letter from the Treasury with reference to the draft Memorandum of Instructions, I am instructed by the Railway Executive Committee to say that they are prepared to accept the form of words suggested by the Treasury in substitution of clause 4 (e) (Arrears of Maintenance Work).

In view, however, of the importance of the point, and of the generality of the language used to express the undertaking of the Government, they think it right to place on record their understanding that, in this clause, the Government admit the principle that, if in the special circumstances obtaining during the period of control, a Railway Company has to postpone works of maintenance (*i.e.*, the repairs and renewals of its works and plant), which in the ordinary course would have been executed within the period and their cost charged as working expenses, the cost of such works, when they come to be executed, is a fair charge against the Government. The Railway Executive Committee feel bound to emphasise this point, because without a distinct understanding with regard to it they would not feel justified in advising Companies, as they have been doing, to undertake the manufacture of the very numerous articles of military equipment which are being made in the shops of many of the Companies, work which is obviously outside the ordinary functions of a Railway Company, and the execution of which must necessarily interfere seriously with the upkeep of the Companies' undertakings.

As regards the form of certificate, under Instruction 13, which was adopted from the Memorandum of Sir William Plender, the Executive Committee have no objection to the alterations proposed by the Treasury, but as the Instructions will be issued by the Executive Committee, they suggest that the Certificate read as under:—

“ We have examined the accounts attached, and compared them with the books and vouchers of the Company. We certify that they are correct and that they have been prepared strictly in accordance with the Memorandum of Instructions, dated January, 1915, issued by the Railway Executive Committee with the approval of His Majesty's Government.”

As regards the signatures to be appended to the certificate, the Executive Committee agree that in every case the Certificate should, in addition to that of the Chief Accountant of the Company, bear the signature of a person or firm having recognised professional qualifications.

It is believed that the above are the only points outstanding with reference to the Memorandum of Instructions, and in view of the necessity for the early issue of these Instructions to the individual Railway Companies, the Executive Committee ask that the formal approval of His Majesty's Government may be conveyed to them at as early a date as possible.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman,
Railway Executive Committee.

The Assistant Secretary
(Railway Department),
Board of Trade, S.W.

(36)

R. 739.
F. 182.

BOARD OF TRADE,
19th January, 1915.

Sir,

With reference to your letter of the 1st January (No. 28657/14) respecting the draft Memorandum of Instructions for the preparation of Railway Companies' Accounts, I am

directed by the Board of Trade to transmit to you, to be laid before the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a communication which they have received from the Railway Executive Committee in the matter.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

(Railway Executive Committee letter of 16th January, 1915, enclosed, Document No. 35.)

(37)

F. 182.

1962/15.

TREASURY CHAMBERS,
10th February, 1915.

Sir,

With reference to Mr. Marwood's letter of the 19th ultimo (R. 739), relative to the draft Memorandum of Instructions for the preparation of Railway Companies' Accounts, the Lords Commissioners of His Majesty's Treasury direct me to state that They agree as to the intention of the understanding with regard to Arrears of Maintenance Work as described in the Railway Executive Committee's letter of the 16th ultimo, a copy of which was forwarded with the letter under reply.

As regards the Certificates under Section 13 of the Memorandum, My Lords understand that these will bear the signatures of (a) the Chief Accountants and (b) either the Auditors or the Professional Accountants. Provided that the person or firm signing possesses recognised professional qualifications My Lords are ready to accept this arrangement.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(38)

R. 1959.

F. 182.

BOARD OF TRADE,
13th February, 1915.

Sir,

With reference to your letter of the 16th January and to previous correspondence respecting the Memorandum of Instructions for the preparation of Railway Companies' Accounts, I am directed by the Board of Trade to transmit to you, for the information of the Railway Executive Committee, the enclosed copy of a letter from the Treasury on the subject.

I am at the same time to state that His Majesty's Government approve of the Memorandum in question, paragraph 4 (e) being amended as indicated in the Treasury letter of the 2nd January, and the certificate in paragraph 13 taking the form shown in the Committee's letter of the 16th January.

I am, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

Sir H. A. Walker,
Railway Executive Committee.

(Treasury letter of 10th February, 1915, enclosed, Document No. 37.)

(NOTE.—The Instructions as approved are given in Document No. 39.)

(35)

F. 182.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

16th January, 1915.

Sir,

Referring to your letter R. 64 of the 2nd instant, enclosing a letter from the Treasury with reference to the draft Memorandum of Instructions, I am instructed by the Railway Executive Committee to say that they are prepared to accept the form of words suggested by the Treasury in substitution of clause 4 (e) (Arrears of Maintenance Work).

In view, however, of the importance of the point, and of the generality of the language used to express the undertaking of the Government, they think it right to place on record their understanding that, in this clause, the Government admit the principle that, if in the special circumstances obtaining during the period of control, a Railway Company has to postpone works of maintenance (*i.e.*, the repairs and renewals of its works and plant), which in the ordinary course would have been executed within the period and their cost charged as working expenses, the cost of such works, when they come to be executed, is a fair charge against the Government. The Railway Executive Committee feel bound to emphasise this point, because without a distinct understanding with regard to it they would not feel justified in advising Companies, as they have been doing, to undertake the manufacture of the very numerous articles of military equipment which are being made in the shops of many of the Companies, work which is obviously outside the ordinary functions of a Railway Company, and the execution of which must necessarily interfere seriously with the upkeep of the Companies' undertakings.

As regards the form of certificate, under Instruction 13, which was adopted from the Memorandum of Sir William Plender, the Executive Committee have no objection to the alterations proposed by the Treasury, but as the Instructions will be issued by the Executive Committee, they suggest that the Certificate read as under:—

“ We have examined the accounts attached, and compared them with the books and vouchers of the Company. We certify that they are correct and that they have been prepared strictly in accordance with the Memorandum of Instructions, dated January, 1915, issued by the Railway Executive Committee with the approval of His Majesty's Government.”

As regards the signatures to be appended to the certificate, the Executive Committee agree that in every case the Certificate should, in addition to that of the Chief Accountant of the Company, bear the signature of a person or firm having recognised professional qualifications.

It is believed that the above are the only points outstanding with reference to the Memorandum of Instructions, and in view of the necessity for the early issue of these Instructions to the individual Railway Companies, the Executive Committee ask that the formal approval of His Majesty's Government may be conveyed to them at as early a date as possible.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman,
Railway Executive Committee.

The Assistant Secretary
(Railway Department),
Board of Trade, S.W.

(36)

R. 739.
F. 182.

BOARD OF TRADE,
19th January, 1915.

Sir,

With reference to your letter of the 1st January (No. 28657/14) respecting the draft Memorandum of Instructions for the preparation of Railway Companies' Accounts, I am

directed by the Board of Trade to transmit to you, to be laid before the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a communication which they have received from the Railway Executive Committee in the matter.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

(Railway Executive Committee letter of 16th January, 1915, enclosed, Document No. 35.)

(37)

F. 182.

1962/15.

TREASURY CHAMBERS,
10th February, 1915.

Sir,

With reference to Mr. Marwood's letter of the 19th ultimo (R. 739), relative to the draft Memorandum of Instructions for the preparation of Railway Companies' Accounts, the Lords Commissioners of His Majesty's Treasury direct me to state that They agree as to the intention of the understanding with regard to Arrears of Maintenance Work as described in the Railway Executive Committee's letter of the 16th ultimo, a copy of which was forwarded with the letter under reply.

As regards the Certificates under Section 13 of the Memorandum, My Lords understand that these will bear the signatures of (a) the Chief Accountants and (b) either the Auditors or the Professional Accountants. Provided that the person or firm signing possesses recognised professional qualifications My Lords are ready to accept this arrangement.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(38)

R. 1959.

F. 182.

BOARD OF TRADE,
13th February, 1915.

Sir,

With reference to your letter of the 16th January and to previous correspondence respecting the Memorandum of Instructions for the preparation of Railway Companies' Accounts, I am directed by the Board of Trade to transmit to you, for the information of the Railway Executive Committee, the enclosed copy of a letter from the Treasury on the subject.

I am at the same time to state that His Majesty's Government approve of the Memorandum in question, paragraph 4 (e) being amended as indicated in the Treasury letter of the 2nd January, and the certificate in paragraph 13 taking the form shown in the Committee's letter of the 16th January.

I am, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

Sir H. A. Walker,
Railway Executive Committee.

(Treasury letter of 10th February, 1915, enclosed, Document No. 37.)

(NOTE.—The Instructions as approved are given in Document No. 39.)

(39)

MEMORANDUM OF INSTRUCTIONS TO RAILWAY COMPANIES FOR THE PREPARATION OF THE ACCOUNTS TO BE PRESENTED BY EACH CONTROLLED COMPANY TO ARRIVE AT THE AMOUNT OF COMPENSATION PAYABLE BY HIS MAJESTY'S GOVERNMENT.

Issued to the Railway Companies on 4th March, 1915, and known as the BLUE BOOK.

Agreement with Railway Companies.

1. His Majesty's Government have agreed with the Railway Companies concerned as follows :—

“ To ascertain the compensation payable, the aggregate net receipts of all the Railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year. The ascertained deficiency shall be the amount of compensation due. Provided that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency shall be reduced in the like proportion. Any question as to the amount of the deficiency shall, in default of agreement, be determined by the Railway and Canal Commission.”

This sum so payable as compensation, together with the net receipts of the Railways taken over, shall be distributed among the Railway Companies in proportion to the net receipts of each Company during the period with which comparison is made.

Definition of Net Receipts.

2. For the purposes of this Agreement, net receipts shall be taken to mean the net receipts covered by the first seven items in Account No. 8 of the First Schedule to the Railway Companies (Accounts and Returns) Act, 1911, and Miscellaneous Receipts (Net) in that account shall not be included.

Revenue Account from 5th August, 1914.

3. For the period subsequent to the 4th August, 1914, each controlled Company must compile an account of the gross revenue accrued during the control period.

Season Tickets.

(a) Season Ticket receipts to be brought to account by each Company in a similar manner to that adopted in 1913—*i.e.*, whether upon a cash basis, or apportioned over the period of validity.

Mails.

(b) The sums received for the conveyance of mails for the quarter ended 30th September, 1914, to be apportioned between the two periods, *viz.* :—

(1) 1st July to 4th August,

(2) 5th August to 30th September,

on the basis of the number of days in each—*viz.*, 35 and 57 respectively.

Parcel Post Receipts.

(c) Parcel Post receipts for the quarter ended 30th September, 1914, to be divided as under :—

(1) FOR THE PERIOD 1ST JULY TO 4TH AUGUST, 1914.

(a) Actual figure for the period to be ascertained from the Postmaster-General.

(b) The amount so arrived at to be apportioned between the British and Irish Pools in the same proportion as is shown in the settlement for half-year ended 31st December, 1913.

(c) The amount so attributed to the British Companies to be divided between the Companies in the same proportions as are shown by the settlement for the half-year ended 31st December, 1913.

(2) FOR THE PERIOD 5TH AUGUST TO 30TH SEPTEMBER, 1914.

(a) The balance of the receipts for the quarter to be apportioned between the British and Irish Pools in the same proportion as is shown in the settlement for the half-year ended 31st December, 1913.

(b) The amount so attributed to the British Companies to be divided between the Companies in the same proportions as are shown by the settlement for the half-year ended 31st December, 1913.

Bad Debts.

(d) Bad debts in respect of traffic originating prior to 5th August, 1914 (whether for conveyance, demurrage, cartage, &c.), to be borne by the Companies concerned irrespective of the date at which the debts are ascertained to be irrecoverable. On the other hand, bad debts in respect of traffic dealt with during the period of Government control to be borne by the Government. A valuation to be included of the net loss of all bad debts not finally disposed of during the control period.

If a reserve is made in 1914 for bad and doubtful debts, &c., such reserve should not as a rule exceed the proportion which the charge in 1913 bore to the outstandings at the close of that year.

Provisions for Estimated Revenue Liabilities.

(e) Subject to the operation of Instruction No. 32, suspending during the period of control divisions between Companies of through traffic in which no non-controlled Company is interested, each Company, in determining the amount of revenue for the control period, must follow strictly the method which regulated the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913.

Expenditure from 5th August, 1914.

4. The expenditure chargeable for the control period must be ascertained as far as it is possible to do so, with the proviso that the amount charged for the renewal of permanent way and rolling stock is not to exceed the amount included in the corresponding period of 1913, except under special circumstances such as additions to the length of line opened, additions to rolling stock in service, or an increase in the cost of renewal work carried out during the period resulting from increased price of labour and materials.

Apportionment of Sundry Items of Expenditure.

(a) The following charges for the half-year ending 31st December, 1914, to be apportioned to the control and non-control periods in proportion to the number of days in each such period :—

- Clothing (all Expenditure Abstracts and Statements).
- General Charges—Abstract E.
- Rates and Taxes (all Expenditure Abstracts and Statements).
- Law Charges.
- Parliamentary Expenses.

Claims for Compensation, Goods and Parcels Traffic.

(b) Claims of all descriptions in respect of Goods and Parcels Traffic originating prior to the 5th August, 1914, to be borne by the Companies concerned irrespective of the date at which such claims are settled.

On the other hand, claims of all descriptions in respect of similar traffic dealt with during the period of Government control to be borne by the Government. A valuation to be included of claims outstanding at the end of the control period.

Provisions for Estimated Expenditure Liabilities.

(c) In determining the amount of revenue expenditure for the control period each Company must follow strictly the method which regulated the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913. Particularly should this principle be observed in setting up reserves for depreciation or provisions for maintenance of locomotives, carriages and wagons, permanent way, bridges, stations, &c.

Stores Stocks.

(d) If stocks of stores were not physically taken and inventoried on the 4th August, 1914, a book figure as shown by the stores stock ledgers to be used as

evidence of the accuracy of the cost of stores and materials charged as having been used for revenue purposes, subject to correction where necessary if an intermediate stocktaking disclosed that issue prices did not correspond with cost. The measure of withdrawals from stores in advance of actual use should be equal at the beginning and end of the control period.

Arrears of Maintenance Work.

(e) In the event of the Companies being of opinion that arrears of normal maintenance work have arisen during the control period, His Majesty's Government have undertaken to consider on their merits any representations submitted to them; and, if necessary, a statement should be prepared at the end of the control period of any liabilities of this nature not included in the accounts prepared currently. (No such statement will be required in cases where provision is made for maintenance by carrying definite sums to a special fund in anticipation of actual expenditure.)

Published Accounts for 1913.

5. The net receipts (as defined) of each Company appearing in the published accounts for the year 1913 must be used in arriving at "Net Receipts" for the corresponding period of control, and for the first six months of that year respectively.

Net Receipts for Half-Year ended 31st December, 1913.

6. Method of arriving at the Net Receipts (as defined) for the half-year ended 31st December, 1913, to be as follows:—

Take the figure of Net Receipts (as defined) for year 1913, as per printed Accounts, and deduct therefrom the Net Receipts of J—Joint Lines, as per Account No. 10. This will give the Net Receipts of the Company (as defined) for the year 1913 £

From this must be deducted the Net Receipts (as defined) of half-year ended 30th June, 1913, adjusted as under:—

Deduct the amount of Net Receipts of J—Joint Lines, included in Account No. 10 £

Add the amount included in respect of charges for complete renewals of Permanent Way and Rolling Stock and provisions therefor—Abstracts A, B (1), (2) and (3) £

Deduct one-half of the amount shown in the printed accounts for the year 1913 for complete renewals of Permanent Way and Rolling Stock and provisions therefor—Abstracts A, B (1), (2) and (3).. .. . £

This will give the Net Receipts of the Company (as defined) for the half-year ended 31st December, 1913 £

Net Receipts for Corresponding Control Period in 1913.

7. Division of net receipts for half-year to 31st December, 1913, between corresponding control and non-control periods to be arrived at as follows:—

"Net Receipts" (as defined) for the corresponding control period in 1913 to be arrived at by apportioning the net receipts of the half-year ended 31st December, 1913, on the basis of the ratio the total traffic receipts (Statement No. 10) for such corresponding period bears to the total traffic receipts of that half-year.

Division of Gross Railway Traffic Receipts for August, 1913.

8. Having regard to the varying conditions of the holiday traffics of the Companies, it is not practicable to devise a uniform method of dividing the total traffic receipts of the month of August, 1913, between the corresponding control and non-control periods. Each Company therefore to make such division in the manner which will, in their opinion, fairly apportion the total traffic receipts of that month to such periods, provided that 27/92nds of the amounts received for the conveyance of mails and parcel post for the quarter ended 30th September, 1913, be apportioned to the period 5th to 31st August.

Transfers for Reserves.

9. If transfers from impersonal accounts were made in 1913 for the purpose, for example, of increasing the provisions or reserves for bad and doubtful debts, renewals, pensions and provident funds, and such transfers were taken from accounts in credit created in earlier years and not required for the objects and purposes for which they were created, such transfers should not be allowed to affect the net receipts of the two years for comparative purposes.

Net Receipts for Half-Year ended 30th June, 1914.

10. In giving effect to the proviso in the agreement with the Government that in the event of the aggregate net receipts for the half-year ended 30th June, 1914, being less than for the corresponding period of 1913, the aggregate compensation payable by the Government shall be proportionately reduced, the net receipts for the half-year ended 30th June, 1914, to be adjusted by adding thereto the amounts charged in respect of complete renewals of permanent way and rolling stock for that period, and deducting therefrom one-half of the total charges under those heads for the year 1914.

Interim accounts for the half-year ended 30th June, 1914, must be carefully reviewed with the view to their revision, if necessary, in order to ensure that they shall be prepared, for the purpose of the claim for compensation, on the same basis as the net receipts for the half-year ended 30th June, 1913.

Form of Accounts for Control Period.

11. The accounts for the period of Government control in 1914 to be prepared in the same form and with the same detail as are required by the Statutory Form of Financial Accounts so far as such form deals with the Revenue Statements and Abstracts preceding the heading "Miscellaneous Receipts (Net)" in Account No. 8, but omitting the Receipts and Expenditure of J—Joint Lines appearing in Statement No. 10 (Receipts and Expenditure in respect of Railway Working). The expenditure incurred in "Watching, Patrolling, &c.," and "Payments to Families of Reservists, &c.," to be shown as separate items in Statement No. 10 after the item "Running Powers," and included in "Total Traffic Expenditure."

Statements as to Reserves.

12. The Accounts to be submitted to the Board of Trade in support of the claim for compensation to be accompanied by Statements, in the form appended hereto, giving the particulars of all sums (a) provided out of, and (b) credited to, revenue, which affected the reserves of the Company for the years 1913 and 1914.

Certificate.

13. The accounts as submitted to the Board of Trade should have a certificate attached signed by the Chief Accountant, the Auditors or the Professional Accountants of each Railway Company, somewhat on the following lines:—

We have examined the Accounts attached, and compared them with the books and vouchers of the Company. We certify that they are correct and that they have been prepared strictly in accordance with the Memorandum of Instructions dated March, 1915, issued by the Railway Executive Committee with the approval of His Majesty's Government.

RAILWAY COMPANY.

GOVERNMENT CONTROL OF RAILWAYS.

COMPENSATION payable under the Agreement made between the Government and Railway Companies under the provisions of the Regulation of the Forces Act, 1871.

STATEMENT SHOWING THE TRANSACTIONS IN THE RESERVES AND SUSPENSE ACCOUNTS OF THE COMPANY WHICH AFFECTED THE REVENUE OF THE YEARS 1913 AND 1914.

(Vide Clause 12 of Memorandum of Instructions.)

Title of Account.	1913.		1914.		Basis on which amount provided has been calculated.
	Amount Provided.	Amount Expended.	Amount Provided.	Amount Expended.	
DEPRECIATION AND SUSPENSE ACCOUNTS, <i>e.g.,</i>					
Permanent Way					
Stations					
Bridges					
Signals					
Ballast Wagons					
Locomotives					
Locomotive Machinery					
Carriages					
Carriage Machinery					
Wagons					
Wagon Machinery					
Locomotive Coal, etc., Wagons ...					
Hydraulics					
Steamboats					
Docks					
Electric Power and Light Plant ...					
Electrical Machinery					
Etc., etc., etc.					
Reserve for Bad*and Doubtful Debts					

IV.—INTERPRETATION OF THE PROVISIONS OF THE INSTRUCTIONS AS TO
AMOUNTS CHARGEABLE IN RESPECT OF RENEWALS.

Document Number.	PAGE
(40) Circular letter, No. 686 (with enclosure) of 28th September, 1916, issued by the Railway Executive Committee as to the interpretation agreed upon with the Government Accountants of the provisions relating to the amounts chargeable in respect of renewals of Permanent Way and/or Rolling Stock contained in Clause (4) of the Memorandum of Instructions as to the preparation of the accounts of controlled Railway Companies ...	34

(40)

(Circular Letter, No. 686).

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.
28th September, 1916.

Dear Sir,

COMPENSATION PAYABLE UNDER THE ACT OF 1871.

Interpretation to be placed upon Clause (4) of the Memorandum of Instructions.

Differences of opinion having arisen as to the intention of Clause (4) of the Memorandum of Instructions issued by the Executive Committee (Instruction No. 214)* the Government Accountants have been approached with the object of agreeing with them an interpretation which it is considered will more clearly express the intention of the original clause. A copy of the agreed interpretation is enclosed herewith.

It is, of course, understood that in arriving at the sums chargeable in respect of

(a) Additional mileage of line, and

(b) Additional units and increased first cost of rolling stock in service,

each Company must follow its established practice, if one exists, and that where no practice exists the Company must satisfy the Investigators—and subsequently the Government Accountants—that the claim made is reasonable having regard to all the circumstances.

Please acknowledge receipt.

Yours faithfully,

(Signed) H. A. WALKER,

Acting Chairman.

The General Manager,
_____ Railway.

(Enclosure to Railway Executive Committee Circular Letter, No. 686, of 28th September, 1916.)

MEMORANDUM OF INSTRUCTIONS TO RAILWAY COMPANIES FOR THE
PREPARATION OF THE ACCOUNTS TO BE PRESENTED BY EACH CON-
TROLLED COMPANY TO ARRIVE AT THE AMOUNT OF COMPENSATION
PAYABLE BY HIS MAJESTY'S GOVERNMENT.

SCHEDULE TO RAILWAY EXECUTIVE COMMITTEE, INSTRUCTION NO. 214.

Agreed interpretation of Article 4 so far as it relates to the amount chargeable for the control period in respect of the renewal of Permanent Way and Rolling Stock :—

All companies are entitled to include in their abstracts of expenditure, A and B, in respect of the renewal of Permanent Way and Rolling Stock, respectively, an amount equal to, but not exceeding, the amount so charged in the corresponding period of 1913, together with such additional sums as—

(1) may be necessary to make provision for the renewal of

(a) additional mileage of line, or

(b) additional units or increased first cost of rolling stock in service.

(2) may be attributable to increased rates of pay or prices of materials paid in respect of renewals carried out during the period and chargeable against the Government.

It is recommended that the agreed interpretation should take effect as from 1st January, 1915, and that any necessary adjustment of the claims for the year 1915 should be made the subject of a supplementary claim.

* See the preceding document, No. 39.

V.—PAYMENT IN RESPECT OF ARREARS OF MAINTENANCE AND RENEWAL WORK.

Document Number.	PAGE
(41) Letter of 27th October, 1914, from the Railway Executive Committee to the Board of Trade, pointing out that the undertaking of work by the Railway Companies for the Admiralty and the War Office necessarily involved a postponement of renewal and repair work, and that in these circumstances the Companies might have to include in their claim against the Government a sum to cover the cost of the work which was being deferred	36
(42) Memorandum dated 20th May, 1915, furnished by the Railway Executive Committee to the War Office, on the financial questions arising out of the manufacture of munitions of war by Railway Companies	36
(43) Mr. Gurney Fowler's report, dated 20th July, 1915, on ascertainment of cost of deferred maintenance, stating that 12½ per cent. was justified as a fair allowance for increase of costs since 1913, so far as the repairs and renewals of rolling stock were concerned	39
(44) Letter of 6th August, 1915, from the Board of Trade to the Treasury, making proposals with regard to payments for arrears of repair and renewal of rolling stock	40
(45) Letter of 26th August, 1915, from the Treasury to the Board of Trade, agreeing to the proposal that the Companies should be allowed to include in their monthly statements an amount calculated to represent arrears of repair and renewal of rolling stock on the basis of Mr. Gurney Fowler's report of 20th July, 1915	41
(46) Letter of 3rd September, 1915, from the Board of Trade to the Treasury, regarding payment for deferred maintenance in respect of permanent way, signals, telegraphs, etc., enclosing proposal of Railway Executive Committee and report by Mr. Gurney Fowler on basis of calculation	41
(47) Letter of 23rd September, 1915, from the Treasury to the Board of Trade, agreeing to the above proposals	43
(48) Letter of 23rd January, 1917, from the Railway Executive Committee to the Board of Trade, suggesting that 33½ per cent. should be substituted for 12½ per cent. as the allowance for increased cost in respect of the year 1916	44
(49) Letter of 13th February, 1917, from the Board of Trade to Sir Albert Wyon, asking him to discuss the matter with the Railway Companies' Accountants	44
(50) Communication of 3rd May, 1917, from the Board of Trade to the Treasury, suggesting a conference with the Railway Companies on the subject	45
(51) Letter of 1st June, 1917, from the Treasury to the Board of Trade, agreeing to a conference	47
(52) Letter of 26th June, 1917, from the Treasury to the Board of Trade, agreeing to an allowance on the basis of 15 per cent. as from the 1st January, 1916	48
(53) Letter of 3rd July, 1917, from the Board of Trade to the Railway Executive Committee, informing them of this decision	49
(54) Communication of 30th August, 1917, from the Railway Executive Committee to the Board of Trade, agreeing to the arrangements proposed and making certain comments on the matter	49
(55) Communication of 8th May, 1918, from the Railway Executive Committee to the Board of Trade, enclosing for submission to the Treasury a memorandum on the subject	52
(56) Letter of 23rd May, 1918, from the Board of Trade to the Treasury, in the matter	54
(57) Letter of 7th June, 1918, from the Treasury to the Board of Trade, agreeing officially to the application of the 15 per cent. as from the commencement of control	54
(58) Letter of 13th June, 1918, from the Board of Trade to the Railway Executive Committee, notifying them of this decision	54

(41)

F. 186.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

27th October, 1914.

Sir,

MANUFACTURING WORK PERFORMED BY THE RAILWAY COMPANIES FOR THE
GOVERNMENT.

You will, no doubt, be aware that the Railway Companies have to some extent placed their Locomotive, Carriage and Wagon Works at the disposal of the Government, and have promised to undertake the manufacture of any articles which are urgently required by the War Office or Admiralty.

Arrangements have already been carried out to construct 12,000 stretchers, and 7,000 general service wagons, and other matters are at the present time in course of negotiation.

The Companies have no wish to make a profit out of such work, and they are willing to receive nothing more than bare cost—that is to say, the amounts actually expended in wages and materials with the usual percentage to cover supervision and general charges.

The Executive Committee think that you should be advised of this fact inasmuch as the undertaking of such work necessarily involves the postponement of the usual renewal and repair work which would otherwise have been carried out to the various Railway Companies' plant, the cost of which would, under the Agreement come to with the Government, have been included in the expenses incurred during the period of Government control.

All the work so postponed will have to be made good as soon as the manufacture of articles undertaken on behalf of the Government is completed; but as this latter work may occupy some months and even extend as long as the Government control of Railways continues, we think it should be made clear that the Railway Companies may sooner or later have to include in their claim against the Government a sum to cover the cost of the work which is deferred and which will have to be overtaken.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman, Railway Executive Committee.

The President,
Board of Trade.

(42)

F. 186.

20th May, 1915.

MEMORANDUM ON THE FINANCIAL QUESTIONS ARISING OUT OF THE
MANUFACTURE BY RAILWAY COMPANIES OF MUNITIONS OF WAR.

(Railway Executive Committee Memorandum.)

The financial questions which call for decision in consequence of the Railway Companies which are under Government control undertaking the manufacture of war munitions for the Government on an extended scale fall under three heads:—

- (1) The charge to be made.
- (2) The mode of payment.
- (3) The effect of such manufacture upon the ordinary work of the Companies, and the safeguards necessary in connection therewith.

(1) *The charge to be made.*

(a) If the work is being done directly for the War Office, very little difficulty arises. The case seems to be fairly met by the Instruction already issued by the Executive Com-

mittee (No. 169A.) and agreed to by the War Office, which provides that the charges for articles manufactured for the Government are to be made up as follows :—

- (1) Materials. If bought specially—at cost price plus usual charges for carriage and handling. If used out of stock—at replacement prices plus usual charges for carriage and handling.
- (2) Labour. At cost price.
- (3) Workshop Expenses. Usual workshop expenses as applying to the various shops.
- (4) Supervision and Establishment Charges. 12½ per cent. to be added to the totals of items (1), (2) and (3).

It is really immaterial what amounts are charged for workshop expenses and supervision and establishment charges, as these will be credited to revenue expenditure and so will enure to the benefit of the Government. It has been suggested that some allowance ought to be made for the use of the Companies' premises and plant—in other words, a payment in the nature of rent or interest on capital, which would be retained by the Companies. In principle there is much to be said in support of such a claim, as the manufacture of war munitions does not fall within the purpose of the Government control of Railways ; but in view of the general readiness on the part of all connected with the Railways to assist in Government work without profit, the Executive Committee do not wish to press this claim if the other points which call for consideration can be met.

(b) If the work is being done for private armament firms the matter is not on quite the same footing, but it is assumed that steps will be taken by the Government to ensure that such firms do not make a profit upon work carried out for them at cost price by a Railway Company. This is a matter rather for the Government than for the Executive Committee, but it is suggested that, if the price paid by the Government to a manufacturing firm includes work done by a Railway Company, the case will perhaps be adequately met by the Instruction already issued by the Executive Committee that, in the case of work for a private firm, an additional charge of 10 per cent. for profit be added to the cost of the work, such charge being credited to working expenses. It would probably be better if, wherever practicable, the work done by a Railway Company were excluded from the contract with the firm.

There is one point that has to be dealt with whether the work is being done for the Government or for a Government contractor—*viz.*, payment for materials purchased but not used, or work only partly executed, at the end of the control period. It is submitted that in such cases either the work should be completed at the cost of the Government, or the work and materials should be taken over and paid for as they stand.

(2) *The mode of payment.*

Seeing that the Railway Companies will be working without profit to themselves, it is essential that they should be adequately financed, and it is suggested that the following procedure be adopted :—

The Executive Committee should from time to time submit to the War Office an estimate of the total cost of all the new work which is being undertaken for the Government, and also at the beginning of each month (four weeks) a statement, which would be prepared for them by the Committee of Railway Accountants, giving the anticipated expenditure in wages and materials during the coming four weeks. Within 14 days after the submission of the latter statement the War Office should pay over to the credit of the Executive Committee a sum equal to such anticipated expenditure, which would be distributed amongst the Companies in proportion to the estimated outlay of each, so as to prevent any Company having to withdraw its own money to pay for Government work. Accounts showing the actual amount expended by each Company during each period of four weeks, together with such certificates as may be required for audit purposes, should be submitted each month to the Government, so as to show the actual outgoings as compared with the sums paid to the credit of the Executive Committee, and any surplus or shortage should be carried forward to the following month's account. The sums received by each Company from time to time would be treated as payments on account, and, as soon as each manufacturing order was completed, the account for that order would be settled by the Government, and any necessary adjustments of accounts made.

It will be realised that the essential features are—(1) That the shareholders of the Companies shall not be called upon to find money for executing Government work at a loss to themselves in the shape of interest charges ; and (2) that the accounts relating to each order shall be finally settled as and when the order has been completely executed, so as to avoid an accumulation of small queries which would have to be cleared off perhaps months after the work was finished.

These two points arise equally whether the work is being done directly for the Government or for a private firm, and the procedure suggested is thought to be suitable in either case.

(3) *The effect of such manufacture upon the ordinary work of the Companies, and the safeguards necessary in connection therewith.*

No Railway Company can undertake manufacturing work for the Government without its normal work suffering. In the case of renewals the difficulty is partly met by the Memorandum of Instructions agreed with the Treasury, which recognises as one of the circumstances that justify a charge in excess of the amount included for renewals in the accounts of 1913, an increase in the cost of renewal work carried out during the period of Government control and resulting from increased prices of labour and materials. This, however, only applies to renewals actually executed during the control period, and, therefore, the more that a Company does in the way of war manufactures, the less is its case met by this provision.

The question of maintenance (using that word in its narrower sense as covering merely repairs and minor renewals) is still more difficult. It has been realised from the first that the work of manufacture undertaken for the Government and other circumstances arising out of the war (*e.g.*, the large number of men joining the Colours), would bring about what has been spoken of as "arrears of maintenance," and the Treasury have admitted the principle that the cost of such arrears, when they come to be executed, is a fair charge against the Government. But the present understanding is that the claims of the various Companies in respect of such arrears of maintenance shall be dealt with at the end of the period of Government control.

It may be doubted whether the decision to postpone dealing with this question until the end of the period of control was a wise one in the interest of either the Government or the Companies, for such postponement is almost certain to lead to a number of difficult and complicated questions. But if the Railway Companies are to undertake the manufacture of munitions of war on any considerable scale, the interference with the upkeep of their rolling stock and plant may be so serious as to put it out of the question to deal with the matter by each Company presenting at the end of the control period an account against the Government for estimated arrears of maintenance. As stated in the Memorandum submitted to the Secretary of State for War: "It would mean a number of very complicated arbitrations, and the position would be intolerable to the Government and the Companies alike."

One method of dealing with the question would be for the Companies to charge in their working expenses in respect of the repair of rolling stock during the period of Government control a sum based on the corresponding items in the Companies' accounts for 1913, a percentage being added to the 1913 figures to cover the higher prices of 1915. An objection to this method arises from the fact that, owing to the Companies making their contracts for materials at different periods, they are not equally affected by the rise in prices. The Government would presumably be unwilling, on account of the labour involved, to agree to the different percentage being fixed for each separate Company, while it would be very difficult to fix a uniform percentage that would at the same time be fair to all Companies and not unfair to the Government.

The Executive Committee therefore recommend that, as regards both renewals and repairs actually executed, either by the Companies in their own shops or by contract, the work be charged in the ordinary way at current prices, and that arrears of work—that is to say, the renewals and repairs which are due to be carried out, but which the Companies have not been able to execute be charged at a uniform percentage above the amount expended in 1913. It is impossible to say what prices will prevail in the future, either as regards labour or materials, but it is suggested that 12½ per cent. would be a fair addition to make to 1913 figures for the period up to 31st December, 1915, the figure being left open to review as from the latter date.

If this suggestion be adopted, it will be necessary to prescribe the mode of arriving at the amount of arrears, but it is thought that there would be no difficulty in doing this upon the basis of the amounts expended on or debited to renewals and repairs in 1913 and the control period respectively, after making allowance for the difference in prices in the two periods—that is to say, the amount by which the expenditure in 1914 or 1915 fell short of the amount spent upon similar items in 1913 after the necessary adjustments of figures due to enhanced prices, would represent the arrears or shortage of work in the control period. Allowance would also have to be made for any increase that a particular

Company might be able to show in the quantity of its rolling stock or in the wear and tear to which such stock had been subjected during the period of control.

In considering what percentage addition to the figures of 1913 would be fair, it must be borne in mind not only that both prices and wages have gone up very much since 1913, but also that in the case of repairs, even with prices remaining constant, the postponement of work beyond the date when it properly falls due in itself involves additional cost. For one thing, arrears have to be caught up and work done under pressure, involving overtime, and other extra payments, but more serious still is the fact that the plant itself falls into a condition necessitating more extensive repairs than would have been required if the work had been taken in hand in ordinary course: the case is an exemplification of the old adage that a stitch in time saves nine.

These last considerations do not admit of any very accurate estimate, but there is no doubt that the money loss they represent is substantial, and, if the postponement were for a long period, would be very serious indeed.

It is understood that it is not proposed that the Railway Companies should undertake work involving the provision of additional plant or buildings on any considerable scale, but, if such provision were necessary, it is assumed that the expense would be undertaken by the Government, the provision of minor items being included in working expenses.

(43)

F. 183.

PRICE, WATERHOUSE & Co.,
GRESHAM COLLEGE,
BASINGHALL STREET,
LONDON, E.C.
20th July, 1915.

Dear Sir,

At a Meeting presided over by you on the 18th June, which I attended and at which there were present representatives of the Treasury and of the Railways, the latter stated that in their opinion it was inexpedient that the method of dealing with the arrears of Maintenance Work (Clause 4, Sub-Clause E of the Memorandum of Instructions*) should be left in abeyance until the end of the control period.

They suggested to the Treasury that the expenditure for the corresponding periods of the year 1913 might be taken as representing fair figures on which to base future calculations; that the Railways should be allowed to charge in their claim against the Government up to the 31st December, 1915, the amount by which the 1914-15 expenditure reduced to the basis of the 1913 prices should prove to fall short of the 1913 expenditure; that to this amount there should be added a percentage of 12½ per cent. as representing the rise in the rate of wages and in the prices of materials between 1913 and the date of the Meeting.

The Treasury generally approved of the suggestion of the Railway representatives, but desired some evidence to be given them, justifying the 12½ per cent. increase referred to.

I was asked to examine figures to be produced to me by the Railways in support of their contention, and to report to you if, in my opinion, such figures justify the increase asked for.

I am now able to report that in accordance with my request, nine of the large Railway Companies, viz. :—

Caledonian
Great Central
Great Northern
Great Western
Lancashire and Yorkshire
London and North-Western
London and South-Western
Midland
North Eastern

have furnished me with returns showing the cost of building an engine, a carriage and a wagon as at the end of June, 1915, compared with the cost of building similar vehicles of

See Document No. 39.

(B 16959)

C 4

the same design, strength and capacity in each case in 1913. The following are the average percentages of increased cost shown :—

Engine (two Railways less than 12½ per cent.)	.. ..	14·95
Carriage (one Railway less than 12½ per cent.)	.. ..	15·21
Wagon (two Railways less than 12½ per cent.)	.. ..	16·99

In accordance with my request the Great Western and Midland Railway Companies have furnished me with statements of the cost of the principal articles used by them in the repairs of locomotives, carriages and wagons. Items selected for comparison are stated to cover from 78 per cent. to over 88 per cent. of the total cost in materials of the repairs of locomotives, carriages and wagons. They may thus be regarded as being fairly representative.

The percentage of increased cost is as follows :—

Principal materials used in repair of—	Great Western.	Midland.
Locomotives	24·50	26·03
Carriages	31·36	12·99
Wagons	24·27	14·11

Having regard to the above figures, which have been certified by responsible officials, I am of the opinion that the 12½ per cent. asked for is justified as a fair charge up to the 31st December, 1915. It is to be observed that the above remarks relate only to repairs of rolling stock.

If the Treasury approve of the suggestion made by the Railway Companies, the following formula would give the required figures :—

The expenditure in 1914-15 or period under consideration .. .. .	.....	.....
*Less a percentage thereof to bring down to 1913 cost .. .. .	.....	.....
	<hr/>	<hr/>
The expenditure in 1913 or corresponding period to that under consideration .. .. .	.....	.....
	<hr/>	<hr/>
Deficiency in expenditure .. .. .	.....	.....
Add 12½ per cent. or one-eighth as representing estimated increased cost of eventually carrying out the arrears of Maintenance Work .. .. .	.....	.....
	<hr/>	<hr/>

Yours faithfully,

(Signed) J. GURNEY FOWLER.

* This percentage will vary with the circumstances of each individual Company, and must be controlled by the Investigators specially or at their next visit.

W. F. Marwood, Esq.,
Board of Trade,
Whitehall Gardens, S.W.

(44)

R. 8356.
F. 183.

BOARD OF TRADE.

6th August, 1915.

Sir,

I am directed by the Board of Trade to state, for the information of the Lords Commissioners of His Majesty's Treasury, that in view of the amount of manufacturing work which the Railway Companies have undertaken for the Government, their maintenance and renewal work has had to be postponed to a much greater extent than was contemplated, and the Railway Executive Committee have proposed that instead of leaving the payment of arrears to the end of the control period, as was originally intended, the amount of the arrears should be estimated and brought into account month by month.

The grounds on which the proposal is based are set out in the 3rd Section of the Memorandum submitted by the Committee to the War Office, of which a copy is enclosed herewith.†

† See Document No. 42.

The proposal, so far as it relates to rolling stock and the question of the allowance which, if payment is to be made currently, will have to be made for the probable increased cost of the work when it comes to be done, were discussed at a meeting at this office on the 18th June, at which their Lordships were represented. It was arranged that the Companies should furnish Mr. Gurney Fowler with particulars of the increase of cost in the construction of rolling stock, and that he should report on the reasonableness of the addition to be made in estimating the arrears, which it was proposed should be 12½ per cent. up to the end of the present year.

Mr. Fowler has now reported that this figure is in his opinion a reasonable one, and a copy of his report is enclosed herewith.*

I am to inquire whether Their Lordships are willing to allow the Railway Executive Committee to include in their monthly statements of the deficiency in the net receipts of the Companies under control an amount calculated on the method proposed to represent arrears of repair and renewal of rolling stock.

It is understood that a similar proposal will be made with regard to permanent way maintenance, and when details are received, Mr. Gurney Fowler's opinion thereon will be obtained.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

See Document No. 43.

(45)

19007/15.

TREASURY CHAMBERS.

26th August, 1915.

Sir,

In reply to Mr. Marwood's letter of the 6th instant (R. 8356), I am directed by the Lords Commissioners of His Majesty's Treasury to request you to inform the Board of Trade that Their Lordships are willing to allow the Railway Executive Committee to include in their monthly statements of the deficiency in the net receipts of the Companies under control an amount calculated to represent arrears of repair and renewal of rolling stock. My Lords also approve the method proposed as the basis of calculation which is set out in the memo. enclosed with the letter under reply, and They also agree to the addition of 12½ per cent. as suggested.

I am, Sir,

Your obedient Servant,

(Signed) JOHN BRADBURY.

The Secretary,
Board of Trade.

(Copy of this letter sent to Railway Executive Committee, 27th August, 1915.)

(46)

R. 9633.

BOARD OF TRADE.

3rd September, 1915.

Sir,

With further reference to the letter from this Department of the 6th August (No. R. 8356) respecting the proposal of the Railway Executive Committee to estimate the amount of certain arrears of maintenance and to bring them into account month by month, I am directed by the Board of Trade to transmit to you, for the information of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a communication from the Committee proposing that an increase of 12½ per cent. up to the end of the present year be added to the actual figures for deferred maintenance of permanent way, etc., under Abstract "A" of the Railway Companies' Accounts.

The Committee's proposal has been submitted to Mr. Gurney Fowler, who has now reported that in his opinion the above-mentioned figure is justified, and a copy of his report is enclosed herewith.

I am to enquire whether Their Lordships are willing to allow the Railway Executive Committee to include in their monthly statements of the deficiency in the net receipts of the Railway Companies under control an amount calculated on the method proposed to represent arrears of renewal and maintenance of permanent way, signals, telegraphs, etc.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

(Enclosure No. 1 in Board of Trade letter of 3rd September, 1915.)

1017.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

7th August, 1915.

My dear Marwood,

DEFERRED MAINTENANCE WORK—ABSTRACT "A" OF RAILWAY COMPANIES' ACCOUNTS.

You will remember that at the meeting which was held at the Board of Trade on 18th June last to discuss the question of deferred maintenance on locomotives, carriages and wagons, a proposal was made that a similar arrangement should be adopted with regard to deferred maintenance under Abstract "A" of the Railway Companies' Accounts, and it was left for us to make a suggestion as to what should be the percentage to be added to the actual amount due under the heading of "Deferred Maintenance" for renewal and maintenance of permanent way, signals, telegraphs, etc.

Since that meeting our Accountants have been carefully considering the matter, and they arrived at the conclusion that we should ask for the same percentage under Abstract "A" as has been suggested under Abstract "B"—viz., 12½ per cent.

I think we may take it that the principle was adopted by the representatives of the Treasury at the meeting above referred to, and it only remains therefore for you to ask Mr. Gurney Fowler to arrange a meeting with the Accountants in order to enable them to justify to him the increase of 12½ per cent., which we propose to add to the actual figure for work uncompleted.

I shall be glad to hear that you agree to this course, so that I may advise the Accountants to be prepared on hearing from Mr. Gurney Fowler.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

W. F. Marwood, Esq., C.B.,
Board of Trade, London, S.W.

(Enclosure No. 2 in Board of Trade letter of 3rd September, 1915.)

PRICE, WATERHOUSE & Co.,
GRESHAM COLLEGE,
BASINGHALL STREET, LONDON, E.C.

27th August, 1915.

Dear Sir,

Referring to your letter of the 13th instant, I have now had an opportunity of examining an account prepared by the Railway Executive Committee from returns furnished to it by the following twelve Railways:—

Caledonian
Great Central
Great Eastern
Great Northern
Great Western
Lancashire and Yorkshire
London and North-Western

London and South-Western
 London Brighton and South Coast
 Midland
 North-Eastern
 South-Eastern and Chatham.

Each of the Railways has been asked to supply a return showing the percentage increase in the rate and cost of Wages, and in the prices of Materials under the main headings in Abstract "A" in 1915 over 1913.

I have examined these returns which in all cases have been certified by the Accountant or other responsible official with a summary thereof, and I find that the average percentage increase of these twelve Railways is as follows:—

Wages	increase	11·07
Materials	"	20·07
Combined	"	14·59

The above figures appear to me to justify 12½ per cent. as a fair estimate of the increased cost of doing the work under the Abstract as compared with 1913, and this figure, so far as I can at present form an opinion, might be considered as fair until the 31st December, 1915.

The following formula would give the required figures:—

The expenditure in 1914/15 or period under consideration .....	.....
* Less a percentage thereof to bring down to 1913 cost .....	.....
<hr/>	
The expenditure in 1913 or corresponding period to that under consideration .. .. .	.....
<hr/>	
Deficiency in expenditure .. .. .	.....
Add 12½ per cent. or one-eighth as representing estimated increased cost of eventually carrying out the arrears of Maintenance Work .. .. .	.....
<hr/>	
<hr/>	

Yours faithfully,

(Signed) J. GURNEY FOWLER.

* This percentage will vary with the circumstances of each individual Company, and must be controlled by the Investigators specially or at their next visit.

W. F. Marwood, Esq.,
 Board of Trade,
 Whitehall Gardens, S.W.

F. 185.

(47)

TREASURY CHAMBERS.

23rd September, 1915.

21069/15.

Sir,

In reply to Mr. Marwood's letter of the 3rd instant (R. 9633), I am directed by the Lords Commissioners of His Majesty's Treasury to request you to inform the Board of Trade that They are prepared to allow the Railway Executive Committee to include an amount calculated to represent arrears of renewal and maintenance of permanent way, signals, telegraphs, &c., in their monthly statements of the deficiency in the net receipts of the Railway Companies under control.

My Lords agree to the addition as suggested of an amount of 12½ per cent. up to the end of the present year arrived at by the method of calculation set out in the Memorandum accompanying the letter under reply.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
 Board of Trade.

(Copy of this letter sent to Railway Executive Committee, 24th September, 1915.)

(48)

F. 188.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

23rd January, 1917.

P/S.
Sir,

DEFERRED MAINTENANCE WORK—ABSTRACTS "A" AND "B" OF RAILWAY
COMPANIES' ACCOUNTS.

In August and September, 1915, certain correspondence took place between the Treasury, the Board of Trade and this Committee in regard to charging in the Railway Companies' Accounts an amount to represent arrears of renewal and maintenance of permanent way, signals, telegraphs and rolling stock, it being agreed that after the figures representing the amount of deferred maintenance had been arrived at, such figures should be supplemented by an addition of 12½ per cent. It was further agreed that this percentage should apply only up to the end of the year 1915, and that a further proposal should be placed before the Government for succeeding years. I enclose copies of letters we received from the Treasury dated 26th August, 1915, and 23rd September, 1915, conveying the approval of the Treasury to the arrangement.

It now, therefore, becomes necessary to propose a figure by which the value of any deferred work during the year 1916 shall be supplemented in order that the Companies may not suffer any loss when the time arrives to carry out deferred work, and I have been requested to propose that that figure should be 33½ per cent.

Probably you will think it necessary for the Government Auditors to certify as to the reasonableness of the percentage now proposed, and upon hearing from you we shall be glad to give the necessary instructions to our Accountants.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman.

The President,

Board of Trade.

(Treasury letters of 26th August, 1915, and 23rd September, 1915, enclosed, Documents Nos. 45 and 47.)

(49)

R. 638.

F. 188.

BOARD OF TRADE,

13th February, 1917.

Dear Mr. Wyon,

I enclose a copy of a letter from Sir Herbert Walker respecting the Railway Companies charge for Deferred Maintenance for the year 1916.

We should be glad if you will kindly arrange to see the Companies' Accountants in the matter, and I have told Sir H. Walker that we have asked you to do so.

Yours truly,

(Signed) ERNEST G. MOGGRIDGE.

A. W. Wyon, Esq.,

Messrs. Price, Waterhouse & Co.,

3, Frederick's Place,

Old Jewry, E.C.

(Railway Executive Committee letter of 23rd January, 1917, enclosed, Document No. 48.)

(50)

R. 638.

F. 188.

BOARD OF TRADE.

3rd May, 1917.

Sir,

I am directed by the Board of Trade to refer to the Treasury's letters of the 26th August and 23rd September, 1915, on the subject of the payment to the Railway Companies of amounts calculated to represent arrears of repair and renewal of rolling stock and of permanent way respectively, together with an addition of $12\frac{1}{2}$ per cent., and I am to state, for the information of the Lords Commissioners of His Majesty's Treasury, that the Railway Companies have raised the question of an alteration in the present arrangements.

The addition of $12\frac{1}{2}$ per cent. referred to was to be made for a period from 4th August, 1914, to 31st December, 1915, and a new figure was to be proposed for the year 1916. The Railway Companies have in effect put forward a proposal that this figure for the year 1916 should be $33\frac{1}{3}$ per cent., but an alternative arrangement is now suggested under which the payment of $12\frac{1}{2}$ per cent. for the period ended 31st December, 1915, should be regarded as a payment on account only, and that for 1916 and onwards a percentage should be charged not representing the increase due to the rise in cost of materials, but a payment on account, and that when the time came for the deferred repairs to be carried out a final settlement should be made.

The arrangement proposed is set out in Sir Alexander Butterworth's letter of the 3rd April, 1917, of which a copy is enclosed, together with a copy of a letter from Mr. A. W. Wyon of Messrs. Price, Waterhouse & Co., to whom a copy of Sir Alexander Butterworth's letter was forwarded. The matter has since been discussed at an interview with Sir Alexander Butterworth and Mr. H. W. Thornton as representing the Railway Companies. They expressed a desire to make an arrangement which should be fair alike to the Railway Companies and the Government, the present arrangement being regarded as unbusinesslike and very uncertain in its operation; as, for instance, if the percentage for 1916 was $33\frac{1}{3}$ per cent.—and possibly a much higher figure would be necessary for the present year—whilst the repairs ultimately were carried out when the cost of materials was considerably lower than it is now. The Railway Companies' representatives expressed the opinion at this interview that the final adjustment, if their proposals were accepted, should take place reasonably soon after the cessation of the period of control, and they would consider that a settlement within a period of a year would be reasonable.

The question was raised at the interview why any additional percentage should be paid now if a settlement is ultimately effected at prevailing prices, and it was suggested that it might be more convenient to the Treasury to pay a sum on account now instead of a large sum later on. There was some diversity of opinion amongst the representatives of the Railway Companies as to what the additional percentage should be at the present time, and 20 per cent. was mentioned; but it is thought not unlikely that they would be willing to continue to accept an addition of $12\frac{1}{2}$ per cent. if it was recognised that the payment already made for the period up to the 31st December, 1915, was a payment on account only.

Mr. Wyon, who was present at the interview, is of opinion that from the information before him the percentage to be allowed under the existing arrangement for 1916 must be considerably in excess of 20 per cent., though in view of the present proposals he had not gone fully into the claim for an additional percentage of $33\frac{1}{3}$ per cent.

The Board would be glad if Their Lordships would consider the proposals now made in substitution for an arrangement which, though it seemed fair at the time, may become very difficult to work on, and should any further information be desired by Their Lordships it is suggested that it could be most conveniently furnished at a meeting with representatives of the Railway Companies and of this Department.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

(Enclosure No. 1 in Board of Trade letter of 3rd May, 1917.)

F. 188.

NORTH EASTERN RAILWAY,
4, COWLEY STREET, WESTMINSTER, S.W.

3rd April, 1917.

G.

Dear Sir,

ARREARS OF MAINTENANCE.

Referring to our conversation on the 28th ultimo, I have seen Sir Thomas Heath and explained to him the nature of the proposal that has been made, and he expressed the view that the matter was one in the first instance for the Board of Trade, and not for the Treasury, and suggested that I should communicate with you.

The proposal, as I explained, is that instead of fixing a new percentage in place of the $12\frac{1}{2}$ per cent. which should govern the payments in respect of the year 1916, one percentage should be made to govern the whole period of control, and all payments made during that period should be treated as payments on account.

As you will be aware, it was arranged that the $12\frac{1}{2}$ per cent should be revised after 31st December, 1915, and the Companies have asked that $33\frac{1}{3}$ per cent. may be substituted for the $12\frac{1}{2}$ per cent. The question has been raised whether the revision of the $12\frac{1}{2}$ per cent. will be retrospective—that is to say, will apply to 1914 and 1915, or whether the arrears of those years are to be treated as a closed transaction. Whatever the intention may have been when the $12\frac{1}{2}$ per cent. was fixed, it seems a curious arrangement that different percentages should be applied to different parts of the works executed after the period of control, and it would not in point of fact be possible to earmark the arrears referable to the different years of the control. Not only so, but if any of the arrears are overtaken during the period of control (and if the control continues after the war, this might very easily be the case) it seems impossible to devise any means for applying the correct percentage to the cost of such work. It has therefore been suggested that instead of revising the percentage year by year, the better plan would be to treat all payments made during the period of control as payments on account, and, when the control comes to an end, to fix a percentage for all the arrears, which shall be fair, having regard to the period over which the execution of the works of deferred maintenance is likely to extend and the probable trend of prices during such period.

The only practicable alternative would seem to be to agree on a percentage now once and for all, each side taking the chance of the figure being above or below the prices prevailing or likely to prevail after the war. This would have the advantage of avoiding further question, but it would in effect be little more than a gamble, and probably great difficulty would be experienced in coming to an agreement on such lines. Moreover, it must be borne in mind that as regards arrears outside Abstracts "A" and "B," it will be necessary to agree some percentage or schedule of prices after the period of control, and there ought not, one would think, to be any greater difficulty in doing this for the arrears falling within those abstracts.

As regards the existing arrangement, I suggest that there is not much object in considering whether or not it was intended to treat each year of the control as a separate bargain and a closed transaction, because apart from the practical difficulties, it is not clear that this course would be to the advantage of the Government. Suppose the prices for 1916 were ascertained to be $33\frac{1}{3}$ per cent. above pre-war prices and those for 1917 twice that figure, it might well be that those prices would be considerably higher than those prevailing or likely to prevail when the control comes to an end.

When you have had an opportunity of considering the matter, Mr. Thornton and I will be pleased to discuss it with you.

Yours faithfully,

(Signed) A. KAYE BUTTERWORTH.

W. F. Marwood, Esq.,
Board of Trade.

(Enclosure No. 2 in Board of Trade letter of 3rd May, 1917.)

MESSRS. PRICE, WATERHOUSE & Co.,
3, FREDERICK'S PLACE,
OLD JEWRY, LONDON, E.C.
12th April, 1917.

Dear Mr. Marwood,

ARREARS OF MAINTENANCE.

As desired by you I have considered the proposal upon this subject contained in Sir A. Kaye Butterworth's letter of the 3rd inst., of which you sent me a copy.

I believe that it is clear from the Minutes of the proceedings, which took place when the arrangement for making good arrears of maintenance was made with the Railway Companies, that it was intended that the amounts at which the claims in respect of a year were agreed should be regarded as definitely fixing the claims for that year. If this is so, it follows that any revision of the allowance for increased costs made in respect of the arrears accruing in 1916 would not affect the allowance already agreed upon for 1914 and 1915, the claims for those years being regarded as definitely ascertained.

The arrangement was no doubt of the nature of a compromise, as it does not seem a necessary part of such an arrangement that the Government should pay forthwith for work which would not be carried out until some indefinite time in the future, and this being so, it might well be regarded as a part of the compromise that the Railways should accept as compensation for any increased costs they might be put to when they came to carry out the work, a sum based upon the increases in the prices of materials and the rates of wages ruling at the time when the claims accrued.

It is possible that when the terms of this compromise were agreed upon, it was not foreseen that the war and consequently the period of control would be so prolonged, and it may be that it would be better to revise the terms of the arrangement, so as to defer until after the war the definite fixing of the allowance for increased costs.

This is the course which is suggested by Sir A. Kaye Butterworth on behalf of the Railways, on the ground, as I understand it, partly that the present arrangement unavoidably contains an element of speculation and partly on the ground of practical difficulties in working.

I do not think that there is any objection from the Government's point of view to such a modification of the arrangement, as it is scarcely possible to foresee how prices and wages after the war will compare with those ruling during the period of control, although it may be surmised that the 12½ per cent. allowed for 1914 and 1915 is not likely to cover the increased costs of carrying out after the war the arrears which accrued in those years.

If, however, the Government, upon the request of the Railways, consents to such a revision of the existing arrangement, it may be advisable to reconsider also that part of the plan which provides for the immediate payment to the railways of sums which they will not have to disburse until some time hence, which at the present high rate of interest represents a valuable concession. Even if it be agreed to continue the present system of current payment for arrears, the payment of any allowance for increased costs might be allowed to stand over till after the war, when it is definitely fixed, or at all events the payment, if continued, might be calculated at a moderate rate, say 12½ per cent.

If I can be of service, I shall be pleased to attend the meeting which Sir A. Kaye Butterworth suggests that Mr. Thornton and himself should have with you to discuss the subject.

Yours very truly,
(Signed) ALBERT W. WYON.

W. F. Marwood, Esq., C.B.,
Board of Trade,
Whitehall Gardens.

(51)

F. 188.
14742/17.

TREASURY CHAMBERS.

1st June, 1917.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Marwood's letter of the 3rd ultimo (R. 638) and the enclosed copy of correspondence on the subject of the amount to be paid to the Railway Companies in respect of arrears of repair and renewal of rolling stock.

In reply I am to request you to inform the Board of Trade that in Their Lordships opinion it is desirable that the matter should be discussed at a conference between representatives of the Companies and of your Department and this Department, and They will be glad if the Board will make arrangements accordingly.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(52)

F. 188.

20441/17.

TREASURY CHAMBERS.

26th June, 1917.

Sir,

1. The Lords Commissioners of His Majesty's Treasury have given further consideration to Sir William Marwood's letter of the 3rd ultimo (R. 638) which, as the Board are aware, was discussed at a conference held on the 19th instant at the Board of Trade with representatives of the Railway Executive Committee.

2. The arrears of repairs and renewals of rolling stock and permanent way accruing due in any year are represented by the difference between the agreed pre-war standard figure, adjusted for any extension of mileage, etc., less the cost at pre-war prices of the works actually carried out in the year and charged to working expenses.

If the pre-war value of the work so carried out in any year exceeds the standard figure, the amount of such excess is due to be repaid by the Company concerned out of the amount received by way of arrears for previous years, together with the appropriate percentage on such excess.

3. The arrears for the period 4th August, 1914, to 31st December, 1915, as determined in the previous paragraph, have been paid by the Board to the Railway Executive Committee, with an addition of 12½ per cent. to represent the enhanced cost, as compared with 1913 prices, of carrying out the deferred works, and My Lords had understood this payment to represent a definite bargain, not open to subsequent adjustment.

4. The Railway Executive Committee now represent that, if similar arrangements are to be continued, the percentage addition for 1916 will be 33½ per cent., while a materially higher figure will apply for 1917. Inasmuch as it is impossible to forecast when or at what prices the works will be carried out, the propriety of any given percentage must be highly speculative.

5. In view of these considerations, My Lords will not refuse to reopen the question as from the commencement of the control, and to regard all the payments made up to date, including those in respect of 1914 and 1915, as payments on account. The total sum payable to the Companies after the control period will therefore be the total arrears, as determined under paragraph 2, plus a percentage representing increase of cost at the date of execution of the works as compared with 1913, less the sums already paid on account.

6. For obvious reasons My Lords would have preferred to make no further payments on account, deferring settlement until the Companies were themselves called upon to defray the expenditure. The Companies have no alternative but to invest the money paid to them on account; and the interest on such investments is credited to a General Interest Account "below the line" and not to Revenue, so as to reduce the compensation payable under the guarantee.

7. My Lords are, however, satisfied that the claim of the Companies to this interest cannot be lightly dismissed. While it is true that increased running expenses, due to postponement of repairs, etc., fall upon the Exchequer through the operation of the Guarantee, the increased amount of repairs, due to progressive deterioration and employment of rolling stock which would normally have been scrapped, falls upon the Companies, the compensation for arrears being based upon the 1913 standard. Further, some appreciable period must necessarily elapse between the time that the Companies actually meet their current payments for working expenses or special works for Government departments and the time they receive repayment (in the monthly advance of compensation or otherwise); and the cost of providing working capital during that interval is not chargeable against the Exchequer.

8. After full consideration My Lords feel it would be inequitable, if not indeed impolitic, to cease making payments on account of arrears. Their Lordships, however, do not see Their way to making payments on account to so large an amount as the Railway Executive Committee suggests; but They authorise you to inform that Committee that They are prepared to sanction the following arrangements—viz., that such payments should, as from 1st January, 1916, be at the rate of 115 per cent. of the arrears, calculated in the manner described in paragraph 2 of this letter. In the revision of the percentage for the purpose of the final settlement it will be necessary, as represented in Sir Alexander Butterworth's letter of 3rd April, to have regard to the period over which the execution of the deferred works is likely to extend and the probable trend of prices during such period.

I am, Sir,

Your obedient Servant,

(Signed) ROBERT CHALMERS.

The Secretary,
Board of Trade.

(53)

R. 638.

F. 188.

BOARD OF TRADE.

3rd July 1917.

Sir,

With reference to previous correspondence and to the recent meeting at this Office on the subject of the payment to be made to the controlled Railway Companies in respect of arrears of repair and renewal of rolling stock and permanent way, I am directed by the Board of Trade to transmit herewith for the information and observations of the Railway Executive Committee, a copy of a letter which has been received from the Treasury in the matter.

As will be observed, there is a slight misstatement in paragraph 3 of the Treasury letter.

I am, Sir,

Your obedient Servant,

(Signed) GARNHAM ROPER.

The Acting Chairman,
Railway Executive Committee.

(Treasury letter of 26 June, 1917, enclosed, Document No. 52.)

(54)

F. 188.

P. 192/6.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

Sir,

30th August, 1917.

ARREARS OF MAINTENANCE.

1. The letter from the Treasury of the 26th June which you forwarded to me on the 3rd July has been carefully considered by the Railway Executive Committee, and I am instructed to say that they are prepared to accept, as a settlement of their application for an increased percentage in respect of the enhanced cost of carrying out deferred works of Maintenance (Abstracts "A" and "B") the arrangement outlined in paragraphs 5 and 8 of the Treasury letter—viz., (1) that payments as from the commencement of the control period are to be regarded as payments on account, and (2) that they are to be at the rate of 115 per cent. of the arrears. This is subject to a correct ascertainment of the arrears, the method of arriving at which is not, the Committee submit, accurately set out in paragraph 2 of the Treasury letter.

2. The question of adjusting "excess" expenditure in those cases where a Company has arrears in one period and an excess in another is not free from difficulty, and the

(B 16959)

D

Railway Executive Committee think it would be well for the Accountants' Sub-Committee to get into touch with Mr. Wyon as soon as possible with the object of agreeing upon a practical method of giving effect to the arrangement proposed.

3. The Committee are not clear as to the object the Board of Trade had in view in asking for their observations upon the letter of the Treasury, which, apart from the definite offer contained in it, consists in part of a statement of the existing position, and in part of an explanation of the reasons why, in the view of the Treasury, the proposals of the Railway Companies should be accorded favourable consideration. It is not apparent why these matters should have been introduced in connection with the present proposals.

4. You will remember that the only questions under considerations were—

- (a) to determine the increased percentage in respect of the enhanced cost of carrying out deferred works of maintenance, and
- (b) the period which these payments should cover.

With regard to (a) the principle of paying an amount currently in respect of deferred maintenance had been previously agreed, and the considerations referred to in Treasury letter as affecting the question of interest, so far as they were relevant, had no doubt already been taken into account.

In the case of (b) a percentage was arrived at based on the average prices current during the period from the commencement of the war to the end of 1915, leaving further percentages to be agreed subsequently for each year.

5. As it was obvious that such an arrangement would be unfair to the Government if at the end of control prices were lower than the amount due plus percentage, and to the Companies if they were higher, it was suggested that the payment for the whole period should be on account and adjusted at the end of control to the prices at which it seemed likely that deferred work could be carried out, it being an essential part of the arrangement with the Government under which the Railways are being worked that the Companies are entitled to have their property restored to them in no worse condition than when it was taken over.

6. As you invite the observations of the Committee upon the letter of the Treasury and as that letter lays down, expressly or by implication, a number of propositions which the Committee are unable to accept as accurate, they have prepared a memorandum setting out the main features of the position, as they understand it, in relation to the matters referred to in the letter, and I am directed to enclose you a copy.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,
Acting Chairman.

The Assistant Secretary,
Board of Trade
(Railway Department).

(Enclosure in Railway Executive Committee letter of 30th August, 1917.)

ARREARS OF MAINTENANCE.

Memorandum with reference to the letter of the Treasury to the Board of Trade, dated 26th June, 1917.

Clause 2 (Paragraphs 1 and 2).—The Committee cannot accept this clause as setting out accurately the arrangements at present in force, with which it can readily be compared. For example, any adjustment for additional mileage, &c., is made not in the 1913 figures, but in the figures of the period under review, and the word "less" in line 4 is obviously an error.

What is more important is that the paragraphs make no reference to the fact that separate claims for arrears have to be made by each Company in respect of Permanent Way and Rolling Stock (Abstracts "A" and "B" of the Railway Companies' Accounts), and that there is no set-off as between the two Abstracts (see clause 2 of the printed Instructions). Further the paragraphs are silent as to those cases in which a period of arrears is preceded by a period of excess, and in which, as the existing arrangement is understood by the Companies, the Government are entitled to insist on a set-off no less than when the arrears precede the excess.

Clause 3.—The Treasury have evidently overlooked the fact that the Companies have at present only received 85 per cent. of the arrears for the period 4th August, 1914, to 31st December, 1915.

Clause 5.—It was agreed at the Meeting held at the Board of Trade on the 25th April last that it was desirable that the final percentage should be agreed or settled within, at the latest, twelve months after the termination of the period of Government control, and the Accounts adjusted accordingly. As the clause stands it might be taken to imply that the final percentage is not to be settled until the works of maintenance are actually carried out, which would not be a practicable procedure.

Clause 6.—The final sentence of this clause is not quite clear. It would be free from ambiguity if the words “and therefore does not” were substituted for the words “so as to,” and this no doubt is the meaning.

Clause 7.—Raises the questions of progressive deterioration and loss of interest, which are only indirectly connected with the matter under negotiation at the present moment. As to the latter, it is noted that the Treasury recognise the fact that the system of monthly payments on account of compensation involves cost to the Companies in the provision of working capital, and apparently wish it to be recorded that they regard that fact as affording a reason for continuing the system of monthly payments on account of arrears of maintenance. The Committee in no way dissent from this view, but they would point out that if any attempt were made to strike a debit and credit balance of interest, many other items would have to be brought into account—for example, the large additions to working capital rendered necessary by the increased prices of materials, the loss of interest from which in the case of a single Company is estimated to amount to something like £50,000 per annum. Indeed, it has always been the view of the Companies' Accountants that the items of interest lost to the Companies are amply sufficient to counterbalance the interest which accrues to them by reason of the system of monthly payments on account of arrears of maintenance. However that may be, the Committee cannot agree that in any such calculation of interest anything would have to be brought into account, as seems to be suggested in the letter of the Treasury, in respect of payment for special works executed by the Companies for a Government Department. The right of the Companies to be financed by the Government when they are asked to carry out such works, either through their shops or through their Engineering Department, has already been recognised, and although the number and magnitude of such works have diminished, it is important that the principle should not be lost sight of.

There remain the questions arising in connection with progressive deterioration and cognate matters, as to which the Treasury state that “the increased amount of repairs due to progressive deterioration and employment of rolling stock which would normally have been scrapped falls upon the Companies.” It is not altogether clear what the words “progressive deterioration” are intended to cover; but the sentence seems capable of bearing an interpretation which would certainly not be fair to the Companies, nor, it is submitted, in accordance with the spirit of the existing arrangements. It has on a number of occasions been pointed out that in many cases the amount by which the work done in a year of the control falls short of the work done in 1913 by no means represents the total loss to the Company, because if repairs are unduly deferred, damage is incurred in a more than corresponding degree. It is sufficient to draw attention to the reference made to this point in the Memorandum submitted to the late Lord Kitchener by the Railway Executive Committee as far back as May, 1915; but it should be borne in mind that the seriousness of the point has been enormously increased since that date, partly by the mere effluxion of time and partly from the difficulty (in many cases the impossibility) of obtaining materials, due in large measure to the restrictions imposed by the action of the Government itself.

Apart from this feature of loss there are many cases where work has to be carried out by a Company under war conditions, the cost of which by its inclusion in working expenses diminishes the Company's claim for arrears of maintenance, while the benefit derived by the Company from such work may be almost nil, or at any rate, is not fairly represented by the cost. Patch-work repairs to rolling stock which in normal times would be scrapped—the case referred to in the Treasury letter—is an instance of this. The use of uncreosoted sleepers is another.

Different Companies are affected by these matters in different degrees, and it does not seem to the Committee that they can be fairly ruled out of consideration when the final settlement with the Government is made. It must be borne in mind that the existing arrangement contains special provision with reference to abnormal wear and tear, which would probably meet most of the cases of hardship which would undoubtedly arise if the

Treasury letter were to be read in a rigid sense, although it has not yet been found possible to devise any satisfactory formula which will meet all cases. It ought to be clearly understood that these provisions are in no way affected by the present proposal. The letter of the Treasury makes it necessary to draw attention to the point, because not only does that letter make no reference to these provisions, but it seems to suggest that the gain to the Companies in interest arising from payments on account of arrears of maintenance is sufficient not only to wipe out the *loss* of interest in other matters, but to cover the indirect losses incurred by a Company, partly from doing repairs which in the circumstances that have arisen must be done, though they are of little ultimate advantage, and partly from undue postponement of repairs, which ought to be done at once, but for which the materials or labour are not forthcoming. Such a conclusion would be entirely at variance with what the Committee believe to be the actual facts.

Clause 8.—The Committee accept the proposal made by the Treasury, subject to the foregoing observations with reference to Clause 2. With reference to the last sentence of the clause, the Committee agree generally with what is said in the letter of Sir Alexander Butterworth referred to as to the matters to be taken in consideration in fixing the final percentage, but they consider that unless it is found possible to deal satisfactorily with the matters raised in Clause 7 of the Treasury letter under the provisions above referred to, these matters may have to be taken into consideration in fixing the percentage, as suggested in the Memorandum to the late Lord Kitchener.

(55)

F. 188.
A/cs. 45/Z. 192/6.

RAILWAY EXECUTIVE COMMITTEE,
16, GREAT GEORGE STREET, WESTMINSTER, S. W.

8th May, 1918.

Dear Sir,

ARREARS OF MAINTENANCE.

With reference to the meeting held here on the 30th ultimo, which was attended by Sir Alexander Butterworth and Mr. Isaac on behalf of the Railway Executive Committee, I am desired to send you, for submission to the Treasury, a copy of the Memorandum which was discussed at the meeting. The Committee wish it to be clearly understood that they are not pressing the point with regard to the ante-dating of the 15 per cent. on account of any pecuniary advantage accruing to the Companies from such ante-dating, but simply to avoid the complications and possible misunderstandings which the Accountants foresee if the Companies have to be instructed to calculate the Arrears of Maintenance at varying rates for different periods of the control.

I am desired to say that it is hoped that it may be possible to give an early decision upon the point, as the accounts for the Arrears of Maintenance, and the necessary instructions with regard to their preparation, are necessarily being held up until this point has been disposed of.

Yours faithfully,

(Signed) H. A. WALKER,

Acting Chairman, Executive Committee.

The Assistant Secretary
(Railway Department),
Board of Trade,
Whitehall, S. W.

(Enclosure in Railway Executive Committee letter of 8th May, 1918.)

ARREARS OF MAINTENANCE AND RENEWAL WORK.

ABSTRACTS "A" AND "B."

Memorandum in regard to Treasury suggestion that the payments on account of Arrears should be at the rate of 112½ per cent. for the period 5th August, 1914, to 31st December, 1915, and at the rate of 115 per cent. subsequently.

1. For the purpose of obtaining payments on account of Arrears of Maintenance, a formula was agreed with H.M. Government for comparing at the end of each year the

amount of the expenditure of that year—after agreed adjustments in respect of increased prices, &c., had been effected—with the corresponding charge in 1913. Should this comparison reveal a shortage in the control period, such shortage is treated as Arrears; should an excess be shown, such excess falls to be deducted from any previous or subsequent Arrears.

2. It is suggested that although independent calculations are made in respect of each year, the Arrears produced by the respective calculations must not be regarded as representing the true Arrears accrued during such year, and that the control period as a whole must be treated as one. This is, of course, quite clear where an "Excess" is produced, say, in 1916, as against an "Arrears" in 1915, the true Arrears at the end of 1916 being the amount (if any) by which the Arrears to the end of 1915 exceed the "Excess" for 1916. Similarly in the case of a Company showing Arrears for each period to the end of 1916, the amount of Arrears as at the end of the latter year is the total of the three statements (1914, 1915 and 1916), the total amount having in practically all cases accrued during the last year—viz., 1916—for the reason that the Company would obviously carry out Arrears of 1914–1915 work before undertaking that relating to 1916.

3. For this reason it is argued that it is illogical to deal with the separate periods of control as subject to different percentages. The aggregate Arrears at any one date by their nature relate to the work which should have been done during the latest period, and all Companies should receive payment therefore on the same basis. For example, three Companies "A," "B" and "C" have Arrears at 31st December, 1916, of £500,000 made up from the Arrears statements for each period as follows:—

	" A. "	" B. "	" C. "
	£	£	£
1914	Arrears 100,000	Arrears 200,000	Arrears 50,000
1915	Arrears 500,000	Arrears 100,000	Arrears 50,000
1916	Excess 100,000	Arrears 200,000	Arrears 400,000
	<hr/> £500,000 <hr/>	<hr/> £500,000 <hr/>	<hr/> £500,000 <hr/>

The payments made to the three Companies if the percentage is changed at December, 1915, would vary, however, as under:—

" A. "	" B. "	" C. "
£562,500	£567,500	£572,500

4. Further, if the percentage is varied, a question will arise in 1917 and subsequently as to which prior period any excess work relates, a different result being produced according to whether such excess is regarded as relating to 1914–1915 or the subsequent period. This question has so far not been discussed, and instructions would have to be drawn up and the formula at present agreed would have to be amended, to provide for whatever settlement was agreed upon. The instructions and the formula, however, are sufficiently complicated at present, and apart from any other consideration, it is suggested a constant percentage should be adopted to avoid the confusion and inconvenience which would otherwise arise in dealing with the 79 controlled Companies.

5. The first paragraph of the Executive Committee's letter to the Board of Trade dated 30th August, 1917, read as follows:—

"The letter from the Treasury of the 26th June which you forwarded to me on 3rd July has been carefully considered by the Railway Executive Committee, and I am instructed to say that they are prepared to accept, as a settlement of their application for an increased percentage in respect of the enhanced cost of carrying out deferred works of maintenance (Abstracts "A" and "B"), the arrangement outlined in paragraphs 5 and 8 of the Treasury letter,—viz., (1) that payments as from the commencement of the control period are to be regarded as payments on account, and (2) that they are to be at the rate of 115 per cent. of the arrears. This is subject to a correct ascertainment of the arrears, the method of arriving at which is not, the Committee submit, accurately set out in paragraph 2 of the Treasury letter."

It is clear from this that the Executive Committee understood that the payments as from the commencement of the control period should be at the rate of 115 per cent. of the A rears.

R. 643.
F. 188.

(56)

BOARD OF TRADE.

23rd May, 1918.

Sir,

I am directed by the Board of Trade to transmit herewith, for the information of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a letter from the Railway Executive Committee forwarding a Memorandum by Sir Alexander Butterworth in support of the view urged by the Committee at the recent meeting at this Office, that payments to the controlled Railway Companies in respect of arrears of maintenance should be at the rate of 115 per cent. of the arrears as from the commencement of the control period.

I am to state that in the circumstances set out in the Memorandum the Board of Trade agree with the Committee's proposal, and they would be glad to learn that the Lords Commissioners see their way to sanction it.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury, S.W.

(Railway Executive Committee communication of 8th May, 1918, enclosed, Document No. 55.)

(57)

F. 188.
20459/18.

TREASURY CHAMBERS,

LONDON, S.W.

7th June, 1918.

Sir,

In the circumstances represented in the Railway Executive Committee's Memorandum submitted in Mr. Moggridge's letter of 23rd ultimo (R. 643), the Lord Commissioners of His Majesty's Treasury agree that the 15 per cent. addition to the figures on which are based the provisional payments to the Railway Executive Committee on account of arrears of maintenance may date back to the commencement of the control period instead of to 1st January, 1916.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

R. 643.
F. 188.

(58)

BOARD OF TRADE.

13th June, 1918.

Sir,

With reference to previous correspondence on the subject of the payment to be made to the controlled Railway Companies in respect of arrears of repairs and renewal of rolling stock and permanent way, I am directed by the Board of Trade to state that with the concurrence of the Treasury they agree that the 15 per cent. addition to the figures on which are based the provisional payments to the Railway Executive Committee on account of arrears of maintenance may date back to the commencement of the control period instead of to the 1st January, 1916.

I am, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Railway Executive Committee.

**VI.—INSTRUCTIONS IN REGARD TO THE PREPARATION OF THE CLAIMS FOR
ARREARS OF MAINTENANCE AND RENEWAL WORK, ABSTRACTS A AND B,
1914—1918.**

YELLOW BOOK (1914—1915).

Document Number.	PAGE
(59) Letter of 31st December, 1915, from Mr. Fowler to Sir William Marwood, with regard to the proposed Instructions for the preparation of the claims for Arrears of Maintenance for the period 5th August, 1914, to 31st December, 1915	56
(60) Letter of 17th January, 1916, from Sir William Marwood to Mr. Fowler on the subject	56
(61) Letter of 19th January, 1916, from the Railway Executive Committee to the Board of Trade, asking for the approval of the Arrears of Maintenance Instructions	56
(62) Letter of 24th January, 1916, from the Board of Trade to the Railway Executive Committee, approving the above Instructions subject to two slight amendments	57
(63) Letter of 25th January, 1916, from the Railway Executive Committee to the Board of Trade, noting that the Instructions are approved	58
(64) Instructions as approved—known as the Yellow Book	59
(65) Example of application of Instructions in the Yellow Book—known as the Heliotrope Book	64

GREEN BOOK (1916).

(66) Instructions with regard to the year 1916, issued 17th June, 1918—known as the Green Book	72
---	----

BROWN BOOK (as from 1917).

(67) Letter of 5th November, 1918, from the Chairman of the Accountants' Sub-Committee to Sir Albert Wyon, asking whether he had any questions to raise in connection with the proposed Instructions, and proposed covering Circular Letter to the Railway Companies	78
(68) Letter of 12th November, 1918, from Sir Albert Wyon to the Chairman of the Accountants' Sub-Committee, stating that he had no comments to make on the proposed Instructions, and making an inquiry with regard to the reference in the draft covering letter to the 12½ per cent. bonus to shop workers	79
(69) Letter of 19th November, 1918, from the Chairman of the Accountants' Sub-Committee to Sir Albert Wyon, explaining the reference to the 12½ per cent. bonus to shop workers	79
(70) Instructions as approved—known as the Brown Book	80

F. 190.

(59)

PRICE, WATERHOUSE & Co.,
3, FREDERICK'S PLACE,
OLD JEWRY, LONDON, E.C.

31st December, 1915.

Dear Mr. Marwood,

RAILWAY COMPENSATION.

The Railway Executive Committee have forwarded me the enclosed document showing the manner in which the Railways propose to deal with the question of Arrears of Maintenance and Renewal Work, in respect of which I reported to you under dates 20th July and 27th August last.*

Sir William Plender and I have both perused this document with care, and we are of opinion that it will meet the requirements of the case. We would, however, suggest that in Clause 4, Sub-section (f), on page 4 of the document, after the word "evidence" in the fourth line from the end of the clause, the words "together with report thereon from the Company's Chief Executive Officer concerned" should be introduced.

This addition meets with the approval of the Railway Executive Committee.

Yours faithfully,

(Signed) J. GURNEY FOWLER.

W. F. Marwood, Esq.,
Board of Trade,
Whitehall Gardens, S.W.

(Proof of Yellow Book enclosed. This book, as approved, is printed below, Document No. 64.)

* Document No. 43 and Enclosure 2 to Document No. 46.

(60)

F. 190.

BOARD OF TRADE.

17th January, 1916.

Dear Mr. Fowler,

RAILWAY COMPENSATION.

We have now looked through the print which you were good enough to enclose in your letter of 31st December showing the manner in which the Railway Companies propose to deal with the question of Arrears of Maintenance and Renewal Work.

We see no objection to the Instructions, and agree to the addition proposed to Clause 4, Sub-section (f), on page 4 of the document, and the only other alteration we would suggest is the substitution for "enable" in paragraph 4, line 4 (page 2), and paragraph 5, line 4 (page 6), of the words "render it necessary for."

Yours faithfully,

(Signed) W. F. MARWOOD.

J. Gurney Fowler, Esq.,
Messrs. Price, Waterhouse & Co.,
3, Frederick's Place, Old Jewry, E.C.

(61)

F. 190.
192/6.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

19th January, 1916.

Sir,

ARREARS OF MAINTENANCE.

I have to refer to the meetings and correspondence that took place some time ago with regard to deferred maintenance work in connection with locomotives, carriages, wagons,

permanent way, signals, telegraphs, etc., as shown in Abstracts "A" and "B" of the Railway Companies' Accounts.

You will be aware that the proposals with regard to deferred maintenance on locomotives, carriages, and wagons were discussed at a meeting which was held at the Board of Trade on 18th June last, at which meeting representatives of the Treasury, Board of Trade, and Railway Companies were present.

The proposals with regard to deferred maintenance for permanent way, signals, telegraphs, etc., was also mentioned at that same meeting, and was confirmed in a letter addressed by this Committee to the Board of Trade under date of 7th August, 1915.*

Both proposals have been agreed to in principle by the Treasury, their consent with regard to locomotives, carriages and wagons being conveyed to you in a letter from the Treasury Chambers dated 26th August, 1915†, and that with regard to permanent way, signals, telegraphs, etc., was approved by a letter under date of 23rd September, 1915.‡

The instructions to be issued by this Committee to the Railway Companies, a copy of which is forwarded with this letter, have been the subject of many meetings between the Railway Companies' Accountants, Mr. Gurney Fowler and Sir William Plender, and I understand that both of these gentlemen have approved of the instructions as drafted.

Our object in sending a copy of the instructions to you is to ask you to approve of them on behalf of the Government before they are finally circulated.

I shall be glad if you will let me hear from you at an early date, as many of the Companies would like to have the question settled before the preparation of their final accounts for the year 1915.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman.

The Assistant Secretary,
(Railway Department),
Board of Trade.

(Proof of Yellow Book enclosed.)

* Enclosure 1 to Document No. 46.

† Document, No. 45.

‡ Document, No. 47.

(62)

R. 672.

F. 190.

BOARD OF TRADE.

24th January, 1916.

Sir,

With reference to your letter of 19th January (No. 192/6) forwarding a copy of the instructions which it is proposed to issue to the Railway Companies as regards Arrears of Maintenance and Renewal Work, I am directed by the Board of Trade to state, for the information of the Railway Executive Committee, that they approve of the instructions in question on behalf of His Majesty's Government subject to the slight amendments suggested and agreed in the accompanying copy of correspondence with Mr. J. Gurney Fowler.

I am, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

Sir H. A. Walker,
Railway Executive Committee.

(Mr. Fowler's letter of 31st December, 1915, and Sir W. Marwood's reply of 17th January, 1916, enclosed, Documents Nos. 59 and 60 respectively).‡

58

(63)

F. 190.

192/6.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

25th January, 1916.

Sir,

I am in receipt of your letter R. 672 of the 24th instant, and note that the instructions it is proposed to issue to the Railway Companies as regards Arrears of Maintenance and Renewal Work are approved, subject to the slight amendments suggested and agreed in the copy of correspondence which accompanied your letter.

I am Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman.

The Assistant Secretary
(Railway Department),
Board of Trade,
London, S.W.

(64)

RAILWAY EXECUTIVE COMMITTEE.

Arrears of Maintenance and Renewal Work.

ABSTRACTS "A," "B" (1), (2) AND (3).

Issued to the Railway Companies on 25th January, 1916, and known as the **YELLOW BOOK**.

General.

1. The Executive Committee have obtained the assent of the Government to the inclusion in the monthly estimate of Revenue Receipts and Expenditure of an amount in respect of the ultimate cost of carrying out the arrears of repairs and renewals arising during the Government control period, so far as Abstracts "A" and "B" are concerned. The Government have further agreed that for the control period from 5th August to 31st December, 1914, and for the year 1915, an addition of 12½ per cent. may be made to the arrears, arrived at as set out in these Instructions, to cover increased outlay which may have to be incurred when the arrears of work are ultimately carried out.

Basis of the Claim.

2. Separate claims for arrears must be made in respect of Abstract "A" and Abstract "B," but the three sections (1), (2), and (3) of Abstract "B" are to be treated as one Abstract and dealt with as a whole. Each claim must be based on the amount by which the expenditure in the Government control period falls short of the total of the Abstract for the corresponding period of 1913, after making allowance for (i) the difference between rates of wages and between prices of materials in the two periods, (ii) any increased cost due to additional length of line opened or additions to rolling stock in service, and (iii) any additional expenditure incurred during the period of Government control as the result of abnormal wear and tear during such period.

Charges between Companies.

3. With reference to Executive Committee Instruction No. 32 suspending charges between Companies: in order to make the control period comparable with the corresponding period of 1913, Companies have been authorised by Circular Letters Nos. 409 and 456, to raise certain charges against other Companies as from 5th August, 1914, for (a) expenditure incurred in the repairs and renewal of Joint Lines, Stations jointly used and Junctions, chargeable to Abstract "A," (b) expenditure incurred in the repairs and renewals of joint rolling stock, and (c) expenditure incurred in the maintenance of other Companies' rolling stock, etc.

Formulae for arriving at Claims.

4. The rules to be observed in making up claims are set out below (a) to (i), and in the Appendix hereto will be found formulae showing in detail the manner of arriving at the arrears of work, which must be closely followed. Those Companies whose circumstances render it necessary for them to make a claim under "B" (1), (2) and (3), must do so for the three sections as a whole, and the expenditure in the control period in the separate sections, arrived at as indicated in the formula, must be added together and placed in relation to the total of the three sections of Abstract "B" for the corresponding period of 1913.

Expenditure during Control Period.

(a) The actual expenditure incurred in the control period under all the headings in the Abstracts arrived at in accordance with the Memorandum of Instructions, but exclusive of the transfer to (or from) Depreciation Fund or Suspense Account, and of the item "Engine Power supplied to and by the Company (Balance)" in the case of "B" (1), is to be the commencing figure in each formula.

Renewal Expenditure in Excess of Programme.

(b) Those Companies whose practice is to provide for renewal work on a fixed basis or annual programme and whose expenditure in the control period in respect of such renewal work is, after making allowance for the circumstances mentioned in Clause 2, in excess of the charge (whether expended or not) made for the corresponding period of 1913, must deduct the amount of such excess from the total expenditure, such excess being chargeable against the Depreciation Fund or Suspense Account as the case may be.

Credits for Supervision, &c. War Manufactures, &c., Accounts.

(c) Any credits for (a) supervision charged to the Government in respect of War Manufactures, etc., and (b) supervision and profit charged to Armament Firms, must be added to the expenditure.

Expenditure on Government Work charged to Revenue Expenditure.

- (d) Any amounts included in the revenue expenditure for work done for the Government—e.g., “sundry small works for the Government” (*vide* Instruction No. 294); special alterations, etc., to rolling stock necessary for the purpose of conveying Naval and Military Traffic, etc., must be deducted therefrom.

New Lines opened and Additions to Rolling Stock in Service.

- (e) The amount presumed to be included in the expenditure during the control period in respect of repairs and renewals of additional length of line or additions to rolling stock in service, as compared with the year 1913 (and, therefore, to be deducted from such expenditure in comparing it with the expenditure of the corresponding period of 1913 for the purpose of determining the arrears of maintenance in terms of money), is to be arrived at as follows:—

- (i) **RENEWALS.**—In the case of “Programme Companies”—*i.e.*, Companies who provide for renewals (complete or partial) on a fixed basis—the amount must be calculated in accordance with the usual practice of the Companies, increased by a percentage to bring it up to 1915 rates of wages and prices of materials; in the case of other Companies, no deduction is to be made.
- (ii) **REPAIRS.**—In the case of “Programme Companies” who provide on a fixed basis for repairs as well as renewals, the amount must be calculated in accordance with the usual practice of the Companies, increased by a percentage to bring it up to 1915 rates of wages and prices of materials. In the case of Companies who do not provide for repairs on a fixed basis, the amount is to be based upon the unit cost of repairs for the year 1913.

The unit cost of repairs to be arrived at by dividing the expenditure shown under the undermentioned headings in the published Accounts for the year 1913 (increased by a percentage to bring it up to 1915 rates of wages and prices of materials), by the number of the relative units as given in the Statistical Returns for that year, and such unit costs are to be multiplied by the number of additional units in each case.

ABSTRACT “A.”

Repairs of Running Lines and Sidings	}	Unit—Per single mile of Track, including Sidings.
Maintenance of Signalling		
Maintenance of Telegraphs		

ABSTRACT “B.”

(1) <i>Locomotives.</i>		
Repairs and Partial Renewals		Unit—Per Locomotive.
(2) <i>Carriages.</i>		
Repairs and Partial Renewals		Unit—Per Coaching Vehicle.
(3) <i>Wagons.</i>		
Repairs and Partial Renewals		Unit—Per Merchandise and Mineral Vehicle.

In the case of a “Programme Company” whose programme covers partial as well as complete renewals, the unit cost of repairs must be reduced by eliminating from the 1913 expenditure the amounts expended on partial renewals.

Additional Expenditure for Abnormal Wear and Tear.

- (f) Any amount included in the expenditure, representing additional costs incurred as the result of abnormal wear and tear to which the permanent way or rolling stock of a Company has been subjected during the control period, should be deducted from such expenditure. Owing to the varying circumstances of the Companies, it is impossible to stereotype a method for arriving at the deductions referred to in this paragraph. Each Company, therefore, who makes such a deduction will be required to produce sufficient evidence, accompanied by a report from the Chief Executive Officer concerned, to satisfy the Government Auditor that the abnormal wear and tear so deducted has taken place, and that the expenditure has been incurred during the control period in making the same good.

Allowance for Increased Rates of Wages and Prices of Materials.

- (g) The deduction from the expenditure in the control period in order to make allowance for the difference between rates of wages and between prices of materials in the two periods is to be arrived at in the following manner, *the year 1915 being taken as an example*:—

WAGES.—The rates of wages paid in 1915 to the grades of employees engaged in maintenance and renewal work to be put in relation to the rates of

wages paid in the year 1913, and the difference expressed in terms of a percentage on the 1915 rates ; such percentage to be applied to the total amount of wages paid in the year 1915 in connection with Abstract " A " and Abstract " B " separately (the three sections of Abstract " B " being also separately dealt with), and the 1915 figures so modified will be the wages cost of work carried out in 1915 at the 1913 rates of wages. In cases where there is a considerable variation in the rate of increase in wages charged under the respective heading in Abstract " A," due regard to be had to the relation between the amount of the wages included under each heading and the gross total of the wages embraced in the Abstract, in arriving at the percentage increase on the total figures.

(NOTE.—The expression " Rates of Wages " covers War Bonus Payments included in the various abstracts, increase in Piece-Work rates, extra payments for Overtime, and any other factor which has increased the cost of labour.)

MATERIALS.—In order to avoid the trouble of calculating the whole of the materials used in 1915 at 1913 prices, not less than 80 per cent. in value of the materials used in 1915 shall be so calculated and the difference between the amount thus arrived at and the actual charge in 1915 for those materials to be expressed as a percentage of the latter figure ; such percentage to be deducted from the cost of all materials used in 1915, in connection with Abstract " A " and Abstract " B " separately (the three sections of Abstract " B " being also separately dealt with). This will give the cost at 1913 prices of materials used in maintenance and renewal work carried out in 1915.

WAGES AND MATERIALS COMBINED.—The difference between the cost of wages in 1915 at 1913 rates of wages, and the cost of materials in 1915 at 1913 issue prices, when added together and applied to the actual cost of wages and materials combined in 1915 will give the percentage which is to be applied to the total amount of the particular Abstract or section of Abstract.

(NOTE.—In the case of rolling stock purchased in 1915, in replacement of other vehicles which under ordinary circumstances would have been built in the Company's workshops, the additional cost arising from that circumstance will not be represented by the percentage arrived at as indicated above, and should be the subject of a separate deduction from the 1915 figures in arriving at the 1915 expenditure as compared with the 1913 expenditure.)

Abstract Totals for Corresponding Periods of 1913.

(h) 5TH AUGUST TO 31ST DECEMBER, 1913.—The totals of the Abstracts for the half-year ended 31st December, 1913, shown in the " Statement of Revenue Receipts and Expenditure for the half-years ended 31st December, 1914, and 31st December, 1913," prepared in accordance with Instruction No. 236, exclusive of the item " Engine Power supplied to and by the Company (balance) " in the case of " B " (1) is to be apportioned to the periods July 1st to 4th August and 5th August to 31st December, in ratio to the Total Traffic Receipts of those periods for the purpose of arriving at the Abstract total to be placed in relation to the expenditure (as adjusted) of the control period in 1914.

YEAR, 1913.—The total of the Abstracts for the year 1913, as shown in the published Accounts, exclusive of the Engine Power item in " B " (1) is to be placed in relation to the expenditure (as adjusted) of the year 1915.

Renewal Expenditure less than Provisions.

(i) Those Companies who provide for renewals on a fixed basis, and whose expenditure for the control period is less than the amount chargeable for that period, will have debited or will debit the amount so unexpended to the respective Abstracts under the heading " Transfer to Depreciation Fund or Suspense Account." The unexpended amounts so charged must therefore be deducted from the " Amount chargeable for Arrears of Work."

Manner of Obtaining Payments on Account of Claims.

5. As indicated in Clause 1, the Government have expressed their willingness to make monthly payments on account of the arrears of maintenance and renewal work as part of the monthly estimated deficiencies. Each Company, therefore, whose circumstances render it necessary for them to make a claim under these Instructions should take steps, as soon as the adjustment of the charges referred to under Clause 3 has been effected, to prepare the necessary information for the purpose of arriving at the Claim or Claims for the period to 31st December, 1914, and for the year 1915 (regard being had to the provisions of the following Clause 6), and include such amounts as separate items in the monthly Estimate of Revenue Receipts and Expenditure under the following headings—viz. : " Maintenance

and Renewal of Way and Works—Arrears,” and/or “ Maintenance and Renewal of Rolling Stock—Arrears.”

Submission of Final Claims.

6. The Claims made under these Instructions for the period 5th August to 31st December, 1914, and for the year 1915, should in their final form be submitted as part of the Claim for compensation for the year 1915, and an Instruction will be issued at a later date setting out the precise form of the Claim and the information it will be necessary to furnish in proof of the increased rates of wages and prices of materials.

It must be noted that any Company making a Claim for Arrears of Work under these Instructions for either period must render statements compiled on the methods set out herein for both periods, and the final Claim will only be admitted in respect of the balance of Arrears of Work disclosed by the two statements. Those Companies therefore making a Claim under these Instructions in respect of either Abstract for the period 5th August to 31st December, 1914, must reduce the amount claimed in respect of that period by the amount by which the expenditure in that Abstract in the year 1915 (after being adjusted as provided in this Instruction) may exceed the total of the Abstract for the year 1913. Similarly, those Companies making a Claim under these Instructions for the year 1915 must reduce the amount claimed in respect of that year by the amount by which the expenditure in the corresponding Abstract or Abstracts in the period 5th August to 31st December, 1914 (after being adjusted as provided in this Instruction), may exceed the total of the respective Abstract or Abstracts for the corresponding period of 1913.

Abnormal Wear and Tear.

7. It should be noted that the Claims to be made under these Instructions do not take into account the abnormal wear and tear to which the permanent way *and* rolling stock of certain Companies may have been subjected during the control period, so far as such abnormal wear and tear has *not* been made good during that period, and that any Company who is in a position to substantiate a claim under this head should make its Claim independently of the Claims submitted for Arrears of Work.

25th January, 1916.

Appendix (*vide Clause 4*).

FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF WAY AND WORKS FOR THE PERIOD 5TH AUGUST, 1914, TO 31ST DECEMBER, 1915.

See Clause 4 of Instruction- Section.	ABSTRACT "A." (<i>Taking year 1915 as an example.</i>)	£	£
(a)	Total Expenditure under all headings in Abstract "A," exclusive of Transfer to (or from) Depreciation Fund or Suspense Account—Year 1915 ... ..		.....
(b)	Less Renewal Expenditure in excess of programme—chargeable to Depreciation Fund or Suspense Account ... ..		.....
	Total Expenditure chargeable to Revenue ... ..		.....
(c)	Add Credits for supervision charged to the Government ... ..		.....
	Less—		.....
(d)	Expenditure on Work for Government charged to Revenue— <i>e.g.</i> , Small Works under £10 ... ..	.....
(e)	For New Lines opened, arrived at in the prescribed manner ... ..	.....
(f)	Additional expenditure for Abnormal Wear and Tear ... ..	.....
	(g) Less per cent. (arrived at in the prescribed manner) to reduce to the 1913 cost ... ..		.....
	Expenditure in 1915 adjusted for comparison with the year 1913 ... ..		.....
(h)	Total of Abstract "A," year 1913, as per printed Accounts ... ..		.....
	Arrears of Work subject to addition of 12½ per cent. ... ..		.....
	Add 12½ per cent. ... ..		.....
	Amount chargeable for Arrears of Work ... ..		.....
(i)	Less Amount transferred to credit of Depreciation Fund or Suspense Account—Year 1915 ... ..		.....
	Net amount to be claimed for Arrears of Work, Abstract "A" ... ..	£	.....

FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF ROLLING STOCK FOR THE PERIOD 5TH AUGUST, 1914, TO 31ST DECEMBER, 1915.

ABSTRACT " B " (1), (2) AND (3). (Taking year 1915 as an example.)

See Clause (4) of
Instruction-
Section

	£	£
(a) Total Expenditure under all headings in Abstract, exclusive of Transfer to (or from) Depreciation Fund or Suspense Account, and of the Engine Power item in " B " (1)—Year 1915 ...		.....
(b) Less Renewal Expenditure in excess of programme—chargeable to Depreciation Fund or Suspense Account ... ..		.....
Total Expenditure chargeable to Revenue ... ..		.....
(c) Add Credits for Supervision and Profit on War Manufactures ...		.....
(d) Less Expenditure on Work for Government charged to Revenue—e.g., Small Works under £10; alterations, &c., to rolling stock for the Military Authorities ... ..	.....
(e) For additions to rolling stock in service, arrived at in the prescribed manner ... ..	.....
(f) Additional Expenditure for Abnormal Wear and Tear ... ..	.....
(g) Additional Cost of rolling stock purchased ... ..	.....
(g) Less per cent. (arrived at in the prescribed manner) to reduce to the 1913 cost ... ..		.....
Expenditure in 1915 adjusted for comparison with the year 1913 ...	£	.....
The above process to be applied in the case of each of the 3 Sections of Abstract " B " separately. The resulting figures to be totalled thus :—		
	B (1)	.....
	B (2)	.....
	B (3)	.....
(h) Total of Abstract " B " (1), (2) and (3), year 1913, as per printed Accounts, exclusive of the Engine Power item in the case of " B " (1) :—	B (1)	.....
	B (2)	.....
	B (3)	.....
Arrears of Work subject to addition of 12½ per cent. ... ..		.....
Add 12½ per cent. ... ..		.....
Amount chargeable for arrears of Work		.....
(i) Less Amount transferred to credit of Depreciation Fund or Suspense Account, Year 1915 :—	B (1)	.....
	B (2)	.....
	B (3)	.....
Net amount to be claimed for Arrears of Work, Abstract " B " (1), (2) and (3)		£

(65)

ARREARS OF MAINTENANCE AND RENEWAL WORK.
ABSTRACTS "A," "B" (1), (2) AND (3).

EXAMPLE OF APPLICATION OF INSTRUCTIONS APPENDED TO
CIRCULAR LETTER No. 483.*

Issued to the Railway Companies on 3rd April, 1916, and known as the HELIOTROPE BOOK.

ABSTRACT "B" (1)—Maintenance and Renewal of Locomotives is taken as the example, and the assumed figures in the years 1913 and 1915 are as follows :—

	£	1913. £	£	1915. £
Superintendence		12,000		10,000
Complete renewals—				
Wages	20,000		14,000	
Materials	50,000		36,000	
	—	70,000	—	50,000
Repairs and partial renewals—				
Wages	170,000		136,000	
Materials	100,000		64,000	
	—	270,000	—	200,000
Purchase of new locomotives				15,000
Workshop expenses		60,000		50,000
Less Credits for Supervision on War Manufactures Accounts				Cr. 1,000
		412,000		324,000
Transfer to (or from) Depreciation Fund		Dr. 30,000		Dr. 45,680†
Total of Abstract (apart from the Engine Power item)		£442,000		£369,680

CLAUSE 4 (e).—ADDITIONS TO ROLLING STOCK IN SERVICE.

The Company had 20 additional locomotives in 1915 as compared with 1913.

REPAIRS.

Repairs and partial renewals in 1913	£270,000
Number of locomotives	1,350
Unit cost of repairs $\frac{£270,000}{1,350} =$	£200
20 new locomotives at £200 —	£4,000
<i>Add $\frac{1}{4}$th in order to express the £4,000 in terms of 1915 prices, it having been ascertained under Clause 4 (g) that the increased cost is equal to 10 per cent. of the 1915 expenditure</i>	445
	£4,445

* This was the circular issuing the Yellow Book.

† This figure has been arrived at in accordance with the Memorandum of Instructions, as under :—

	£	£
Renewal Provision in 1913 :—		
† Expenditure	70,000	
Transfer	30,000	
	—	100,000
<i>Add for 20 new engines as per Clause 4 (e)</i>		1,480
<i>Add for increased cost of work executed—</i>		
Additional cost of 5 engines purchased as per Clause 4 (g)	3,000	
Increased cost as compared with 1913 as per Clause 4 (g) (being 10 per cent. of £62,000)	6,200	
	—	9,200
Amount chargeable under Memorandum of Instructions		110,680
Less Expenditure :—		
† Complete renewals	50,000	
Purchase of new locomotives	15,000	
	—	65,000
Amount to be transferred to credit of Depreciation Fund		£45,680

† For convenience "Workshop Expenses" in respect of Complete Renewals have not been dealt with.

RENEWALS.

Renewal provision in 1913 for 1,350 locomotives :—

Expenditure	...	...	...	...	...	...	...	£70,000	
Transfer to Depreciation Fund	...	...	...	...	...	...	...	30,000	
									£100,000
Renewal provision in 1913 per locomotive	...	...	...	...	...	...	...		£74
For 20 additional locomotives at £74	...	...	...	...	...	...	...		£1,480
Add $\frac{1}{3}$ th in order to express the £1,480 in terms of 1915 prices, it having been ascertained under Clause 4 (g) that the increased cost is equal to 10 per cent. of the 1915 expenditure	...	...	...	...	...	...	...		164
									£1,644
Total repairs and renewals	...	...	...	...	...	...	...		£6,089

CLAUSE 4 (f).—ADDITIONAL EXPENDITURE FOR ABNORMAL WEAR AND TEAR.

The amount ascertained to be included in the 1915 expenditure in respect of abnormal wear and tear incurred during the control period is... £1,000

CLAUSE 4 (g).—ALLOWANCE FOR INCREASED RATES OF WAGES AND PRICES OF MATERIALS.

WAGES.

The four assumed selected weeks, together with the periods represented thereby, are as under :—

Week ended	PERIOD REPRESENTED.	
	1913.	1915.
January 21st ...	13 weeks, from January 1st to April 1st	7 weeks, from January 1st to February 18th.
June 24th ...	13 weeks, from April 2nd to July 1st ...	22 weeks, from February 19th to July 22nd.
September 16th ...	20 weeks, from July 2nd to November 18th.	10 weeks, from July 23rd to September 30th.
November 25th ...	6 weeks, from November 19th to December 31st.	13 weeks, from October 1st to December 31st.
	NOTE.—The only variation in the rates of Wages, &c., in the year 1913, operated as from November 19th.	NOTE.—The variations in the rates of Wages, &c., in the year 1915, operated as from the following dates :— February 19th. July 23rd.

The total actual hours worked in the selected weeks in 1913, together with the total earnings in respect of such hours, are as follows :—

Week ended.	Actual hours worked.	Amount of earnings.	Average per hour. (a)	No. of weeks in period represented. (b)	(a) multiplied by (b).
January 22nd ...	110,000	£ s. d. 3,354 10 10	d. 7-319	13	d. 95-147
June 25th ...	108,000	3,293 2 0	7-318	13	95-134
September 17th ...	115,000	3,507 19 7	7-321	20	146-420
November 26th ...	112,000	3,428 12 0	7-347	6	44-082
				TOTAL	380-783

CLAUSE 4 (g).—ALLOWANCE FOR INCREASED RATES OF WAGES AND PRICES OF MATERIALS—
continued.

WAGES—continued.

The total actual hours worked in the selected weeks in 1915, together with the total earnings in respect of such hours, are as follows :—

Week ended.	Actual hours worked.	Amount of earnings.	Average per hour. (a)	No. of weeks in period represented. (b)	(a) multiplied by (b)
		£ s. d.	d.		d.
January 22nd	95,000	2,907 0 0	7.344	7	51.408
June 25th	98,000	3,344 5 0	8.190	22	180.180
September 17th	92,000	3,351 17 4	8.744	10	87.440
November 26th	90,000	3,279 7 6	8.745	13	113.685
				TOTAL	432.713

	d.	d.
The 1915 average = 432.713 divided by 52	...	8.3214
The 1913 average = 380.783 divided by 52	...	7.3228
Increase in 1915	...	0.9986

0.9986 = 12 per cent. of 8.3214.

Wages paid in 1915 :—	£
Complete Renewals	14,000
Repairs and Partial Renewals... ..	136,000
	150,000
Less 12 per cent.	18,000
Wages cost of 1915 work at 1913 rates	£132,000

MATERIALS.

The gross debit for materials used in 1915 was... .. £125,000

80 per cent. in value of those materials is represented by the following commodities :—

	£
Copper	22,000
Steel	54,000
Wrought Iron	3,000
Castings, Iron	8,000
Tin, Block	9,000
Lead	4,000
	£100,000

The quantities of the above materials calculated at the 1913 prices gives the following result :—

	£
Copper	20,460
Steel	50,220
Wrought Iron	2,790
Castings, Iron	7,440
Tin, Block	8,370
Lead	3,720
	£93,000

Increase in 1915 £7,000

Representing 7 per cent. of the 1915 charge for the selected materials.

CLAUSE 4 (g).—ALLOWANCE FOR INCREASED RATES OF WAGES AND PRICES OF MATERIALS—
continued.

MATERIALS—*continued.*

This percentage has to be deducted from the cost of materials used in 1915 and charged to Abstract " B " (1) as under :—

Complete Renewals	£	
	36,000	
Repairs and Partial Renewals	64,000	£
		100,000
Less 7 per cent.		7,000
		<hr/>
Cost of materials used in 1915 at 1913 prices		£93,000
		<hr/>

WAGES AND MATERIALS COMBINED.

<i>Wages.</i>	£	£
Actual cost in 1915	150,000	
Cost at 1913 rates	132,000	
	<hr/>	18,000
<i>Materials.</i>		
Actual cost in 1915	100,000	
Cost at 1913 rates	93,000	
	<hr/>	7,000
Increased cost in 1915 arising from increased rates of pay and increased prices of materials		<hr/>
		£25,000
Actual cost of wages and materials in 1915 :—		
	£	
Wages	150,000	
Materials	100,000	
	<hr/>	£250,000
		<hr/>

The increased cost is thus equal to 10 per cent. of the 1915 expenditure.

CLAUSE 4 (g).—(NOTE ON PAGE 5 OF INSTRUCTION) ADDITIONAL COST OF ROLLING STOCK PURCHASED.

The Company bought 5 engines from outside firms in 1915 at a cost of ...	£15,000
These engines in the ordinary course would have been built in the Company's workshops, and would have cost at 1915 rates of wages and prices of materials	12,000
	<hr/>
The additional cost arising from the purchase is therefore	£3,000
	<hr/>

FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF ROLLING STOCK FOR THE PERIOD, 5th AUGUST, 1914, TO 31st DECEMBER, 1915.

ABSTRACT " B " (1), (2) AND (3).

See Clause 4 of
Instruction-
Section.

	£	£
(a) Total Expenditure under all headings in Abstract, exclusive of Transfer to (or from) Depreciation Fund or Suspense Account, and of the Engine Power item in " B " (1)—Year 1915		324,000
(b) Less Renewal Expenditure in excess of programme—chargeable to Depreciation Fund or Suspense Account ... ..		.....
Total Expenditure chargeable to Revenue		324,000
(c) Add Credits for Supervision and Profit on War Manufactures		1,000
		<hr/> 325,000
Less—		
(d) Expenditure on Work for Government charged to Revenue—e.g., Small Works under £10; alterations, &c., to Rolling Stock for the Military Authorities ... ..	.....
(e) For additions to Rolling Stock in service, arrived at in the prescribed manner	6,089	
(f) Additional Expenditure for Abnormal Wear and Tear ...	1,000	
(g) Additional Cost of Rolling Stock purchased	3,000	
		<hr/> 10,089
(g) Less 10 per cent. (arrived at in the prescribed manner) to reduce to the 1913 cost... ..		314,911
		<hr/> 31,491
Expenditure in 1915 adjusted for comparison with the year 1913		<hr/> 283,420
§ The above process to be applied in the case of each of the 3 Sections of Abstract " B " separately. The resulting figures to be totalled thus :—		
	B (1)	283,420
	B (2)	.....
	B (3)	.....
		<hr/> 283,420
(h) § Total of Abstract " B " (1), (2) and (3), year 1913, as per printed Accounts, exclusive of the Engine Power item in the case of " B " (1) :—		
	B (1)	442,000
	B (2)	.....
	B (3)	.....
		<hr/> 442,000
Arrears of Work subject to addition of 12½ per cent.		158,580
Add 12½ per cent.		19,822
Amount chargeable for Arrears of Work		<hr/> 178,402
(i) § Less Amount transferred to credit Depreciation Fund or Suspense Account year 1915 :—		
	B (1)	45,680
	B (2)	.....
	B (3)	.....
		<hr/> 45,680
Net amount to be claimed for Arrears of Work, Abstract " B " (1), (2) and (3)		<hr/> £132,722

NOTE—Abstracts " B " (2) and (3) have not been dealt with.

PROOF OF RESULT OF APPLICATION OF FORMULA.

ARREARS OF RENEWALS.

	£	£	£	£
Amount charged for Renewals in 1913 :—				
Expenditure		70,000		
Transfer		30,000		
		<hr/>	100,000	
Expenditure in 1915 :—				
Engines purchased	15,000			
Less additional cost as per Clause 4 (g)	3,000			
	<hr/>	12,000		
Expenditure in Company's Shops ...		50,000		
		<hr/>	62,000	
Less 10 per cent. for increased cost as per Clause 4 (g)		6,200		
		<hr/>	55,800	
Less for 20 additional Engines as per Clause 4 (e)		1,480		
		<hr/>	54,320	
			<hr/>	45,680

ARREARS OF REPAIRS.

Expenditure in 1913 :—				
Superintendence		12,000		
Repairs and Partial Renewals		270,000		
Workshop Expenses		60,000		
		<hr/>	342,000	
Expenditure in 1915 :—				
Superintendence		10,000		
Repairs and Partial Renewals		200,000		
Workshop Expenses		50,000		
		<hr/>	260,000	
Less for Abnormal Wear and Tear as per Clause 4 (f)		1,000		
		<hr/>	259,000	
Less 10 per cent. for increased cost as per Clause 4 (g)		25,900		
		<hr/>	233,100	
Less for Repairs of additional Stock as per Clause 4 (e)		4,000		
		<hr/>	229,100	
			<hr/>	112,900
Arrears of Repairs and Renewals				158,580
Add 12½ per cent.				19,822
				<hr/>
				178,402
Less Amount transferred to credit of Depreciation Fund—Year 1915				45,680
				<hr/>
Amount of Claim				£132,722

ARREARS OF MAINTENANCE AND RENEWAL WORK.

ABSTRACTS "A," "B" (1), (2) and (3).

Method to be adopted by each Company for arriving at the allowance for increased rates of Wages and prices of Materials referred to in Clause 4 (g) of the Instructions appended to Circular Letter No. 483.

ABSTRACT "A."

WAGES.

(i) *Year 1915 as compared with Year 1913.*

- (a) Each Company to select in the year 1915 one week prior to the introduction of the War Bonus in February, 1915, and one week in each of the three remaining quarters of the year (the corresponding weeks being taken for the year 1913), so as to comprise within each period any variation which may have arisen either in 1913 or in 1915 in the rates of pay, piece-work allowances, overtime allowances, or War Bonus payments (Non-Conciliation grades) charged to Abstract "A."
- (b) Each Company to ascertain the total actual days or hours worked by employees in the grades engaged in Maintenance and Renewal Work and mainly chargeable to Abstract "A," in each of the selected weeks in 1915, and in the corresponding weeks in 1913—whether at ordinary, piece-work or overtime rates—together with the total amount of earnings paid to the employees in respect of such days or hours.
- (c) The total earnings for each selected week to be divided by the total days or hours actually worked for the same week. This will give for each of the four weeks in both years the average daily or hourly wages cost. The average rates per day or per hour to be calculated to not less than three places of decimals.
- (d) The average daily or hourly wages cost for each of the four selected weeks in each year to be multiplied by the number of weeks within the period represented by that week as defined in Clause (a) above, and the total of the four resulting figures for each year when divided by 52 will give the comparison of the average daily or hourly wages cost in the two years, and the increase which is to be expressed in the terms of a percentage of the 1915 average.

The percentage increase so ascertained to be applied to the total amount of the wages paid in the year 1915 in connection with Abstract "A," and the 1915 figures so modified will be "the wages cost of work carried out in 1915 at the 1913 rates of wages" referred to in Clause 4 (g) of the Instructions.

(ii) *Period 5th August to 31st December, 1914, as compared with Corresponding Period of 1913.*

A comparison of the average daily or hourly wages cost to be made by the same method as for the year 1915, based on the figures for one week in the period 5th August to 31st December, the week to be the same as that taken in the last quarter of the year for the purpose of the 1915-1913 comparison.

MATERIALS.

(i) *Year 1915 as compared with Year 1913.*

- (a) In determining the minimum of 80 per cent. (in value) referred to in the Instructions, the gross debit for the materials issued and used at the actual issue prices—i.e., before taking credit for scrap materials returned—should be adopted as the basis for the total value of the materials mainly charged to Abstract "A," divided into the following groups:—
 - (1) Permanent Way Materials (including Electric Track Equipment).
 - (2) Signal and Telegraph Materials.
 - (3) Sundry Materials—Stations, Buildings, Roads and Bridges and all other Materials not coming under (1) or (2).
- (b) The actual quantities issued and used of the Materials, mainly chargeable to Abstract "A," selected to represent the 80 per cent. in the year 1915, and the cost thereof in 1915 at actual issue prices, to be tabulated in detail for each of the three groups referred to under (a), and compared in the total with the cost for similar quantities at the 1913 issue prices, the net increase so ascertained to be expressed as a percentage of the 1915 cost.

The percentage increase so ascertained to be deducted from the cost of all materials used in 1915 and charged to Abstract "A," which will give "the cost at 1913 prices, of Materials used in Maintenance and Renewal Work carried out in 1915" referred to in Clause 4 (g) of the Instructions.

(ii) *Period 5th August to 31st December, 1914, as compared with Corresponding Period of 1913.*

An exactly similar procedure to that adopted for 1915-1913 to be applied in the case of the Materials issued and used in the period from 5th August to 31st December, 1914. If the figures disclose a net decrease as compared with the corresponding period of 1913, the percentage to be added to the cost of all materials used, and charged to Abstract "A," in the period 5th August to 31st December, 1914.

ABSTRACTS "B" (1), (2) AND (3).

WAGES.

(i) *Year 1915 as compared with Year 1913.*

- (a) Each Company to select in the year 1915 one week prior to the introduction of the War Bonus in February, 1915, and one week in each of the three remaining quarters of the year (the corresponding weeks being taken for the year 1913), so as to comprise within each period any variation which may have arisen either in 1913 or in 1915 in the rates of pay, piece-work allowances, overtime allowances, or War Bonus payments.
- (b) Each Company to ascertain the total actual hours worked by employees in the grades engaged in Maintenance and Renewal Work and mainly chargeable to Abstracts "B" (1), (2) and (3), in each of the selected weeks in 1915, and in the corresponding weeks in 1913—whether at ordinary, piece-work or overtime rates—together with the total amount of earnings paid to the employees in respect of such hours. Each section of Abstract "B" to be separately dealt with as provided in the Instructions.
- (c) The total earnings for each selected week to be divided by the total hours actually worked for the same week. This will give for each of the four weeks in both years the average hourly wages cost. The average rates per hour to be calculated to not less than three places of decimals.
- (d) The average hourly wages cost for each of the four selected weeks in each year to be multiplied by the number of weeks within the period represented by that week as defined in Clause (a) above, and the total of the four resulting figures for each year when divided by 52 will give the comparison of the average hourly wages cost in the two years, and the increase which is to be expressed in the terms of a percentage of the 1915 average.

The percentage increase so ascertained to be applied to the "Wages" items shown under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstracts "B" (1), (2) and (3) respectively, for the year 1915, and the 1915 figures so modified will be "the wages cost of work carried out in 1915 at the 1913 rates of Wages" referred to in Clause 4 (g) of the Instructions.

(ii) *Period 5th August to 31st December, 1914, as compared with Corresponding Period of 1913.*

A comparison of the average hourly wages cost to be made by the same method as for the year 1915, based on the figures for one week in the period 5th August to 31st December—the week to be the same as that taken in the last quarter of the year for the purpose of the 1915-1913 comparison.

MATERIALS.

(i) *Year 1915 as compared with Year 1913.*

- (a) In determining the minimum of 80 per cent. (in value), referred to in the Instructions, the gross debit for the materials issued and used at the actual issue prices—i.e., before taking credit for scrap materials returned—should be adopted as the basis for the total value of the materials mainly charged under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstracts "B" (1), (2) and (3) respectively.
- (b) The actual quantities issued and used of the Materials mainly chargeable to Abstracts "B" (1), (2) and (3) respectively, selected to represent the 80 per cent. in the year 1915, and the cost thereof in 1915 at actual issue prices, to be tabulated in detail, and compared in the total with the cost for similar quantities at the 1913 issue prices, the net increase so ascertained to be expressed as a percentage of the 1915 cost.

The percentage increase so ascertained to be deducted from the charge for "Materials" under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstracts "B" (1), (2) and (3) respectively, in the year 1915, which will give "the cost at 1913 prices of materials used in Maintenance and Renewal Work carried out in 1915" referred to in Clause 4 (g) of the Instructions.

(ii) *Period 5th August to 31st December, 1914, as compared with Corresponding Period of 1913.*

An exactly similar procedure to that adopted for 1915-1913 to be applied in the case of Materials issued and used in the period from 5th August to 31st December, 1914. If the figures disclose a net decrease as compared with the corresponding period of 1913, the percentage to be added to the charge for "Materials" under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstracts "B" (1), (2) and (3) respectively, in the period 5th August to 31st December, 1914.

(66)

RAILWAY EXECUTIVE COMMITTEE.

Arrears of Maintenance and Renewal Work.

ABSTRACTS "A" AND "B" (1), (2) and (3). YEAR 1916.

Issued to the Railway Companies on the 12th June, 1918 and known as the GREEN BOOK.

Percentage Addition.

1. With reference to Clause 1 of the Appendix to Circular Letter No. 483 of 25th January, 1916 (hereinafter referred to as the Yellow Book), the Government have agreed that the Arrears of Maintenance and Renewal Work, Abstracts "A" and "B," as at the 31st December, 1916, arrived at as set out in these Instructions, may be increased by the addition of 15 per cent. on account of the increased outlay which may have to be incurred when the Arrears of Work have ultimately to be carried out.

New Lines opened and Additions to Rolling Stock in Service.

2. (a) With reference to Clause 4 (e) of the Yellow Book: as a result of the agreed interpretation of Clause 4 of the Memorandum of Instructions (*vide* Circular Letter No. 686), all Companies, whether "programme" or "non-programme," will be entitled to an allowance in respect of the renewal of New Lines opened and additions to Rolling Stock in service, as indicated in Circular Letter No. 686. The amount so arrived at must be increased by a percentage to bring it up to 1916 rates of wages and prices of materials as provided in Clause 4 (e) referred to.

(b) In view of the fact that the relative statistical returns have not been published for the year 1916, it will be necessary to submit to the Investigators such returns duly certified by the responsible officer concerned.

Reduction in Numbers of Rolling Stock in Service.

3. In the event of the number of Locomotives, Carriages, or Wagons respectively, in service at the 31st December, 1916, being less than the number in service at the 31st December, 1913, the expenditure during the year 1916 must be increased by an amount arrived at as follows, unless it can be shown that the capacity or first cost of the Locomotives, Carriages, or Wagons respectively, in service at the 31st December, 1916, is not less than the capacity or first cost of the vehicles existing at the end of 1913:—

(a) RENEWALS.—In the case of "programme" Companies—*i.e.*, Companies who provide for Renewals (Complete or Partial) on a fixed basis—the amount, if any, must be calculated in accordance with the usual practice of the Companies, increased by a percentage to bring it up to the 1916 rates of wages and prices of materials. In the case of other Companies, the Company must satisfy the Investigators that the amount dealt with is reasonable having regard to all the circumstances.

(b) REPAIRS.—In the case of "programme" Companies who provide on a fixed basis for repairs as well as renewals, the amount, if any, must be calculated in accordance with the usual practice of the Companies, increased by a percentage to bring it up to the 1916 rates of wages and prices of materials. In the case of Companies who do not provide for repairs on a fixed basis, the amount is to be based upon the unit cost of repairs for the year 1913, arrived at as set out in sub-section (ii) of Clause 4 (e) of the Yellow Book.

Rolling Stock built or repaired otherwise than in the Companies' Workshops.

4. With reference to the note to Clause 4 (g), (page 5) of the Yellow Book, a deduction similar to that authorised in connection with Rolling Stock purchased must be made from the 1916 figures in respect of the additional cost of Rolling Stock repaired otherwise than in the Companies' Workshops which under ordinary circumstances would have been repaired in the Companies' Workshops. In arriving at the deductions in respect of Rolling Stock so built or repaired outside, the amount paid in respect of such work must be put in relation to the cost which would have been incurred in doing the work in the Companies' Workshops at 1916 rates of wages and prices of materials, including a due allowance for workshop expenses.

Additional Renewal or Depreciated Provisions other than in respect of New Lines and/or Rolling Stock.

5. The amount allowed to a Company through Abstracts "A" and "B" (1), (2) and (3) in the Account of the Net Receipts, by way of a renewal or depreciation provision, in excess of, or additional to, the 1913 provision, in respect of works or equipment other than Permanent Way and/or Rolling Stock, should be dealt with as a deduction on the

same lines as those adopted in the case of "New Lines Opened" and additions to "Rolling Stock in Service (*vide* Clause 2 (a) hereof).

Special Expenditure incurred in the Lifting and Restoration of Permanent Way due to Shortage of Materials.

6. In cases where a Company, owing to the shortage of materials, has lifted rails, etc., from a line which would not otherwise have been disturbed, for use on a more important section of line, the cost incurred in such lifting operations may be deducted from the expenditure in arriving at the claim for Arrears of Maintenance, together with the labour cost incurred in the restoration of the former line. In the event of the restoration not having been effected prior to the end of the period of Control, the estimated cost of the labour to be expended in connection with such restoration should be claimed specially from the Government.

Transfers to or from Depreciation Funds or Suspense Accounts.

7. The net amounts shown in the Abstracts for 1916 under the heading of "Transfer to or from Depreciation Fund or Suspense Account" must be deducted from or added to the "Amount Chargeable for Arrears of Work," as provided in the Formulae—*i.e.*, the net amount transferred to the credit of Depreciation Funds or Suspense Accounts would be a deduction from the Arrears, and the net amount transferred from Depreciation Funds or Suspense Accounts to the credit of the Abstract would be an addition to the Arrears.

J Joint Lines.

8. (a) The wages percentage for Abstract "A" in the case of J Joint Lines maintained by one or more of the owning or leasing Companies to be arrived at as follows:—

- (i) If wholly maintained by one Company the wages percentage arrived at by such Company for its own line to be adopted.
- (ii) If maintained by two or more Companies, the wages percentages of such Companies to be combined on the basis of the wages incurred in respect of the J Joint Line Maintenance under the supervision of, or charged by, the respective maintaining Companies.

(b) The materials percentage for Abstract "A" to be ascertained in the case of each J Joint Line in accordance with these Instructions.

Allowance for Increased Rates of Wages. Year 1916 as compared with 1913. Abstract "A."

9. (a) Each Company to select in the year 1916 four weeks (no more and no less), one in each quarter. These weeks should, so far as possible, correspond with those selected in the case of the year 1915, and in the event of there being any variation, the Investigators will require to be satisfied as to the circumstances under which such variation has been made. The periods in 1916 represented by the selected weeks must be fixed so as to comprise within each such period any variation which may have arisen in the rates of pay per hour, piece-work allowances, overtime allowances, or War Bonus payments (Non-Conciliation grades) charged to Abstract "A."

(b) Each Company to ascertain the total actual days or hours worked by employees whose wages are mainly chargeable to Abstract "A," in each of the selected weeks in 1916, whether at ordinary, piece-work or overtime rates, together with the total amount of earnings paid to the employees in respect of such days or hours (excluding Conciliation War Bonus).

(c) The total earnings for each selected week to be divided by the total days or hours actually worked for the same week. This will give for each of the four weeks the average daily or hourly wages cost. The average rates per day or hour to be calculated to not less than three places of decimals.

(d) The average daily or hourly wages cost for each of the four selected weeks to be multiplied by the number of weeks within the period represented by that week as defined in Section (a) of this Clause, and the total of the four resulting figures when divided by 52 will give the average daily or hourly wages cost in the year 1916, which must be placed in relation to the average daily or hourly wages cost in 1913 ascertained for the purpose of the 1915 Arrears Statement. The increase shown to be expressed in the terms of a percentage of the 1916 average.

The percentage increase so ascertained to be applied to the total amount of the wages paid in the year 1916 in connection with Abstract "A" and the 1916 figures so modified will be "the wages cost of work carried out in 1916 at the 1913 rates of wages" referred to in Clause 4 (g) of the Yellow Book.

Allowance for Increased Prices of Materials. Year 1916 as compared with 1913. Abstract "A."

10. (a) In determining the minimum of 80 per cent. (in value, referred to in the Yellow Book the gross debit for the materials issued and used at the actual issue prices—*i.e.*, before taking credit for the amount dealt with in respect of scrap materials returned—should be adopted as the basis for the total value of the materials mainly charged to Abstract "A." So far as possible the materials selected for the year 1916 should correspond with the materials selected in the case of 1915 Arrears Statement.

(b) The actual quantities of the materials issued and used mainly chargeable to Abstract "A," selected to represent the 80 per cent. in the year 1916, and the cost thereof in 1916 at actual issue prices, to be tabulated in detail and compared in the total with the cost for similar quantities at the 1913 issue prices, the net increase so ascertained to be expressed as a percentage of the 1916 cost.

The percentage increase so ascertained to be applied to the cost of all material used in 1916 and charged to Abstract "A," after taking credit for the amount dealt with in respect of scrap materials returned, which will give "the cost at 1913 prices of materials use in Maintenance and Renewal Work carried out in 1916," referred to in Clause 4 (g) of the Yellow Book.

(In ascertaining the amounts included in Abstract "A" in the year 1916 for "Wages" and "Materials" respectively, amounts paid to Contractors for work done to be excluded from the respective items unless it has been the practice of the Company to make an actual allocation of such amounts to the two headings.)

Allowance for Increased Rates of Wages. Year 1916 as compared with 1913. Abstract "B" (1), (2) and (3).

11. (a) Each Company to select in the year 1916, four weeks (no more and no less), one in each quarter. These weeks should, so far as possible, correspond with those selected in the case of the year 1915, and in the event of there being any variation, the Investigators will require to be satisfied as to the circumstances under which such variation has been made. The periods in 1916 represented by the selected weeks must be fixed so as to comprise within each such period any variation which may have arisen in the rates of pay per hour, piece-work allowances, overtime allowances, or War Bonus payments.

(b) Each Company to ascertain the total actual hours worked by employees whose wages are mainly chargeable to Abstract "B" (1), (2) and (3), in each of the selected weeks in 1916, whether at ordinary, piece-work or overtime rates, together with the total amount of earnings paid to the employees in respect of such hours. Each section of Abstract "B" to be dealt with separately as provided in the Yellow Book.

(c) The total earnings for each selected week to be divided by the total hours actually worked for the same week. This will give for each of the four weeks the average hourly wages cost. The average rates per hour to be calculated to not less than three places of decimals.

(d) The average hourly wages cost for each of the four selected weeks to be multiplied by the number of weeks within the period represented by that week as defined in section (a) of this Clause, and the total of the four resulting figures when divided by 52 will give the average hourly wages cost in 1916, which must be placed in relation to the average hourly wages cost in 1913, ascertained for the purpose of the 1915 Arrears Statements. The increase shown to be expressed in the terms of a percentage of the 1916 average.

The percentage increase so ascertained to be applied to the "Wages" items shown under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstract "B" (1), (2) and (3) respectively, for the year 1916, and the 1916 figures so modified will be "the wages cost of work carried out in 1916 at the 1913 rates of wages" referred to in Clause 4 (g) of the Yellow Book.

Allowance for Increased Prices of Materials. Year 1916 as compared with 1913. Abstracts "B" (1), (2) and (3).

12. (a) In determining the minimum of 80 per cent. (in value), referred to in the Instructions, the gross debit for the materials issued and used at the actual issue prices—*i.e.* before taking credit for the amount dealt with in respect of scrap materials returned—should be adopted as the basis for the total value of the materials mainly charged under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstract "B" (1), (2) and (3) respectively. So far as possible the materials selected for the year 1916 should correspond with the materials selected in the case of the 1915 Arrears Statements.

(b) The actual quantities of the materials issued and used mainly chargeable to Abstract "B" (1), (2) and (3) respectively, selected to represent the 80 per cent. in the year 1916, and the cost thereof in 1916 at actual issue prices, to be tabulated in detail and compared in the total with the cost for similar quantities at the 1913 issue prices, the net increase so ascertained to be expressed as a percentage of the 1916 cost.

The percentage increase so ascertained to be applied to the charge for "Materials," under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstract "B" (1), (2) and (3) respectively, in the year 1916, which will give "the cost at 1913 prices of materials used in Maintenance and Renewal Work carried out in 1916" referred to in Clause 4 (g) of the Yellow Book.

Percentages.

13. The percentages arrived at under the foregoing paragraphs to be worked out to three places of decimals.

Submission of Final Claims.

14. With reference to the second paragraph of Clause 6 of the Yellow Book, it must be noted that all Companies are required to compile a statement in the form provided, in respect of the year 1916, and that no Company will be entitled to retain or receive any amount in respect of Arrears of Maintenance to the 31st December, 1916, unless the statement shows that there are Arrears of Work for the whole period from 5th August, 1914, to the 31st December, 1916. Those Companies therefore making a claim in respect of either Abstract for the year 1916 must reduce the amount so claimed by the net excess, if any, shown in the statements rendered in respect of that Abstract for the period 5th August to 31st December, 1914, and the year 1915, respectively. Similarly, those Companies who show an excess of work in either Abstract for the year 1916 will be required to refund the amount of such excess, with the proviso that the amount so refunded shall not exceed the amount received by the Company in respect of that Abstract for Arrears of Maintenance to the 31st December, 1915.

Formulæ.

15. Appended hereto are formulæ showing the manner in which the amount of arrears or excess of work at the 31st December, 1916, is to be arrived at. It will be noted that in ascertaining the net arrears or excess of work as at that date, the arrears or excess of work produced by the formulæ for each of the three periods—viz., 5th August to 31st December, 1914, year 1915 and year 1916—must be combined before the addition of any percentage.

General.

16. In all other respects the Instructions contained in the Yellow Book are to be strictly followed.

APPENDIX (*vide Clause 15*).

FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF WAY AND WORKS—YEAR 1916.

ABSTRACT "A."		£	£
Total Expenditure under all headings in Abstract "A," exclusive of Transfers to (or from) Depreciation Fund or Suspense Account—Year 1916	...	.....	.....
Add Credits for supervision charged to the Government	...	.....	.....
<hr/>			
<i>Less—</i>			
Expenditure on Work for Government charged to Revenue— <i>e.g.</i> , Small Works under £10	...	.....	.....
For New Lines opened, arrived at in the prescribed manner	...	.....	.....
For Renewals and Depreciation of additional works or equipment other than Permanent Way	...	.....	.....
Additional Expenditure for Abnormal Wear and Tear	...	.....	.....
Special Expenditure for lifting and restoration of Permanent Way due to shortage of materials	...	.....	.....
<hr/>			
<i>Less</i> per cent. (arrived at in the prescribed manner) to reduce to the 1913 cost		.....	.....
<hr/>			
Expenditure in 1916 adjusted for comparison with the year 1913	...	.....	.....
Total of Abstract "A," year 1913, as per printed Accounts	...	.....	.....
<hr/>			
Arrears of Work, year 1916	...	.....	.....
<i>Add (or Deduct)—</i>			
Arrears (or excess) of work (before addition of 12½ per cent.), 5th August to 31st December, 1914	...	.....	.....
Year 1915	...	.....	.....
<hr/>			
Arrears of Work to 31st December, 1916, subject to addition of 15 per cent.		.....	.....
Add 15 per cent....	...	.....	.....
<hr/>			
Amount chargeable for Arrears of Work to 31st December, 1916	...	.....	.....
<i>Deduct (or Add)—</i>			
Amount transferred to credit or debit of Depreciation Fund or Suspense Account :—			
*5th August to 31st December, 1914	...	.....	.....
*Year 1915	...	.....	.....
Year 1916	...	.....	.....
Amount claimed in respect of Arrears of Maintenance, 5th August, 1914, to 31st December, 1915	...	.....	.....
<hr/>			
Net amount to be claimed for Arrears of Work, Abstract "A," to 31st December, 1916	...	.....	£
<hr/>			

* To be the amounts dealt with as "Transferred to credit of Depreciation Fund or Suspense Account" at the foot of the Arrears of Maintenance Statements for the respective periods.

FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF ROLLING STOCK—YEAR 1916.

ABSTRACT " B " (1), (2) AND (3).		£	£
Total Expenditure under all headings in Abstract, exclusive of Transfer to (or from) Depreciation Fund or Suspense Account, and of the Engine Power item in " B " (1)—Year 1916	.....		.....
<i>Add—</i>			
Credits for Supervision and Profit on War Manufacturers	.....		.....
For reduction in Rolling Stock in Service, arrived at in the prescribed manner	.....		.....
		
<i>Less—</i>			
Expenditure on Work for Government charged to Revenue— <i>e.g.</i> , Small Works under £10; Alterations to Rolling Stock for the Military Authorities	.....		.....
For additions to Rolling Stock in service, arrived at in the prescribed manner	.....		.....
For Renewals and Depreciation of additional equipment other than Rolling Stock	.....		.....
Additional Expenditure for Abnormal Wear and Tear	.....		.....
Additional Cost of Rolling Stock purchased from or repaired by outside firms	.....		.....
		
<i>Less</i> per cent. (arrived at in the prescribed manner) to reduce to the 1913 cost	.....		.....
Expenditure in 1916 adjusted for comparison with the year 1913	.....	£	.....
The above process to be applied in the case of each of the 3 Sections of Abstract " B " separately. The resulting figures to be totalled thus—			
	B (1)	.....	.....
	B (2)	.....	.....
	B (3)	.....	.....
		
Total of Abstracts " B " (1), (2) and (3), year 1913, as per printed Accounts, exclusive of the Engine Power item in the case of " B " (1):—			
	B (1)	.....	.....
	B (2)	.....	.....
	B (3)	.....	.....
		
Arrears of Work, year 1916	.....		.....
<i>Add (or Deduct)—</i>			
Arrears (or excess) of work (before addition of 12½ per cent.), 5th August to 31st December, 1914	.....		.....
Year 1915	.....		.....
		
Arrears of Work to 31st December, 1916, subject to addition of 15 per cent.	.....		.....
<i>Add</i> 15 per cent....	.....		.....
		
Amount chargeable for Arrears of Work to 31st December, 1916	.....		.....
<i>Deduct (or Add)—</i>			
Amount transferred to credit or debit of Depreciation Fund or Suspense Account, " B " (1), (2) and (3) combined:—			
*5th August to 31st December, 1914	.....		.....
*Year 1915	.....		.....
Year 1916	.....		.....
Amount claimed in respect of Arrears of Maintenance, 5th August, 1914, to 31st December, 1915	.....		.....
		
Net amount to be claimed for Arrears of Work, Abstract " B " (1), (2) and (3), to 31st December, 1916	.....	£	.....

* To be the amount dealt with as " Transferred to credit of Depreciation Fund or Suspense Account " at the foot of the Arrears of Maintenance Statements for the respective periods.

(67)

ACCOUNTANTS' SUB-COMMITTEE,
c/o RAILWAY EXECUTIVE COMMITTEE,
16, GREAT GEORGE STREET, WESTMINSTER, S.W.

5th November, 1918.

Dear Sir,

ARREARS OF MAINTENANCE AND RENEWAL WORK. ABSTRACTS "A" AND "B"
(1), (2) AND (3).

I have the pleasure to send you herewith a copy of the Instructions relating to the preparation of the Arrears of Maintenance claims for the year 1917 and subsequently, which it is proposed to issue to the controlled Railway Companies, together with a copy of the covering Circular Letter which will accompany the document.

Will you be good enough to give the matter your consideration and advise me, as early as possible, whether you have any questions to raise in connection therewith.

Yours faithfully,

(Signed) J. CHAS. ISAAC,

Chairman.

A. W. Wyon, Esq.,
3, Frederick's Place,
Old Jewry, E.C.

(Enclosure No. 1 in Railway Executive Committee letter of 5th November, 1918, consisted of a copy of the document printed at No. 70 below.)

(Enclosure No. 2 in Railway Executive Committee letter of 5th November, 1918).

Draft Circular Letter.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, S.W.

Dear Sir,

ARREARS OF MAINTENANCE AND RENEWAL WORK. ABSTRACTS "A" AND "B"
(1), (2) AND (3).

I have the pleasure to send you herewith the Instructions relating to the preparation of the Statements in respect of Arrears of Maintenance and Renewal Work—Abstracts "A" and "B" (1), (2) and (3) as from and including the year 1917. These Instructions consolidate all the provisions contained in the documents issued with Circular Letters No. 483 (Yellow Book*), No. 536 (Heliotope Book†) and No. 1400 (Green Book‡), so far as such provisions are now applicable, and the three documents named are hereby cancelled so far as the year 1917 and subsequent periods are concerned.

With regard to Clauses Nos. 16 and 17 of the Instructions, the prescribed number of weeks for the year 1917 is 5 (five) for Abstract "A" and 4 (four) for Abstract "B" (1), (2) and (3). So far as the latter Abstract is concerned the payment of the additional 12½ per cent. in the case of shopworkers made in the year 1918, but operating as from October, 1917, should be ignored in compiling the Arrears Statements for 1917, the intention being to make a special provision for the item in the Arrears Statements for the year 1918.

Will you please take steps to prepare statements for the year 1917 in accordance with the Instructions appended hereto, on the lines adopted for previous Arrears Claims, whether your Company has a claim for Arrears of Maintenance or not, and render the formulæ only by 31st December next to 16, Great George Street, Westminster, S.W. 1., before being investigated, in order that the Government may be approached with the object of obtaining a further payment on account to the end of 1917. The complete statements will be investigated subsequently by Investigators from the Company appointed to examine your account of the net receipts.

Please acknowledge receipt.

The General Manager,
_____ Railway.

* Document No. 54.

† Document No. 65.

‡ Document No. 66.

79

(68)

PRICE, WATERHOUSE & Co.,
3, FREDERICK'S PLACE,
OLD JEWRY, E.C.
12th November, 1918.

Dear Mr. Isaac,

ARREARS OF MAINTENANCE AND RENEWAL, 1917.

I am in receipt of your letter of the 5th instant and have examined the draft of the instructions proposed to be issued and have no comments to make thereon.

I do not understand the reference in the enclosing circular letter to the additional 12½ per cent. paid in the case of shopworkers.

Will you kindly explain to what it relates?

Yours truly,

(Signed) ALBERT W. WYON

J. C. Isaac, Esq.,

Chairman, Accountants' Sub-Committee,
c/o Railway Executive Committee,
16, Great George Street, S.W.

(69)

ACCOUNTANTS' SUB-COMMITTEE,
c/o RAILWAY EXECUTIVE COMMITTEE,
16, GREAT GEORGE STREET, S.W.
19th November, 1918.

Dear Sir,

ARREARS OF MAINTENANCE AND RENEWAL WORK. YEAR 1917.

I am obliged for your letter of the 12th instant, and with regard to the second paragraph thereof the additional 12½ per cent. referred to in the covering Circular Letter is a bonus on earnings granted to shopworkers in lieu of War Bonus in January, 1918, dating back to October, 1917. It will therefore be seen that the 1918 accounts include an amount in respect of the year 1917, and it is proposed to deal with the matter in 1918 by means of a special deduction in the formulæ.

The paragraph is inserted in the Circular Letter in order that Companies may not endeavour to deal with the retrospective payment in the 1917 Arrears of Maintenance claims.

Yours faithfully,

(Signed) J. CHAS. ISAAC,
Chairman.

A. W. Wyon, Esq.,
3, Frederick's Place,
Old Jewry, E.C.

(70)

Arrears of Maintenance and Renewal Work.**ABSTRACTS "A" AND "B" (1), (2) AND (3).**

Issued to the Railway Companies on 13th December, 1918, and known as the **BROWN BOOK**.

General.

1. The Executive Committee have obtained the assent of the Government to payments on account in respect of the ultimate cost of carrying out the arrears of repairs and renewals arising during the Government control period, so far as Abstracts "A" and "B" are concerned. The Government have further agreed that an addition of 15 per cent. may be made to the Arrears, arrived at as set out in these Instructions, on account of the increased outlay which may have to be incurred when the arrears of work are ultimately carried out.

Basis of the Claim.

2. Separate claims for arrears must be made in respect of Abstract "A" and Abstract "B," but the three sections (1), (2) and (3) of Abstract "B" are to be treated as one Abstract and dealt with as a whole. Each claim must be based on the amount by which the expenditure in the Government control period falls short of the total of the Abstract for the year 1913, after making such allowances as are provided for in these Instructions.

Formulae for arriving at Claims.

3. The rules to be observed in making up claims are set out herein (Clauses 4 to 25), and in the Appendix hereto will be found formulae showing in detail the manner of arriving at the arrears of work. Those Companies whose circumstances render it necessary for them to make a claim under "B" (1), (2) and (3), must do so for the three sections as a whole, and the expenditure in the control period in the separate sections, arrived at as indicated in the formula, must be added together and placed in relation to the total of the three sections of Abstract "B" for the year 1913.

Expenditure during Control Period.

4. The actual expenditure incurred under all the headings in the Abstracts arrived at in accordance with the Memorandum of Instructions, but exclusive of the transfer to (or from) Depreciation Fund or Suspense Account, and of the item "Engine Power supplied to and by the Company (balance)" in the case of "B" (1), is to be the commencing figure in each formula.

Credits for Supervision, &c., War Manufactures, &c., Accounts.

5. Any credits for (a) supervision charged to the Government in respect of War Manufactures, &c., and (b) supervision and profit charged to Armament Firms, must be added to the expenditure.

Expenditure on Government Work charged to Revenue Expenditure.

6. Any amounts included in the revenue expenditure for work done for the Government—e.g., "Sundry small works for the Government" (*vide* Instruction No. 294), special alterations, &c., to rolling stock necessary for the purpose of conveying Naval and Military Traffic, &c.—must be deducted therefrom.

New Lines opened and Additions to Rolling Stock in Service.

7. The amount presumed to be included in the expenditure in respect of repairs and renewals of additional length of line or additions to Rolling Stock in service, as compared with the year 1913 (and, therefore, to be deducted from such expenditure in comparing it with the expenditure of the year 1913 for the purpose of determining the arrears of maintenance in terms of money), is to be arrived at as follows:—

(a) **RENEWALS.**—The amount to which the Company is entitled under the provisions of the agreed interpretation of Clause 4 of the Memorandum of Instructions (*vide* Circular Letter No. 686) must be adopted, increased by a percentage to bring it up to the rates of wages and prices of materials of the control period under review.

(b) **REPAIRS.**—In the case of "Programme" Companies, who provide on a fixed basis for repairs as well as renewals, the amount must be calculated in accordance with the usual practice of the Companies, increased by a percentage to bring it up to the rates of wages and prices of materials of the control period under review. In the case of Companies who do not provide for repairs on a fixed basis, the amount is to be based upon the unit cost of repairs for the year 1913. The unit cost of repairs

to be arrived at by dividing the expenditure shown under the undermentioned headings in the published accounts for the year 1913 by the number of the relative units as given in the Statistical Returns for that year, and such unit costs are to be multiplied by the number of additional units in each case, the resulting figure to be increased by a percentage to bring it up to the rates of wages and prices of materials of the control period under review.

ABSTRACT "A."

Repairs of Running Lines and Sidings.	}	Unit—Per single mile of Track, including Sidings.
Maintenance of Signalling. ..		
Maintenance of Telegraphs.		

ABSTRACT "B."

(1) *Locomotives.*

Repairs and Partial Renewals. Unit—Per Locomotive.

(2) *Carriages.*

Repairs and Partial Renewals. Unit—Per Coaching Vehicle.

(3) *Wagons.*

Repairs and Partial Renewals. Unit—Per Merchandise and Mineral Vehicle.

In the case of a "Programme" Company whose programme covers partial as well as complete renewals, the unit cost of repairs must be ascertained after eliminating from the expenditure for the year 1913 the amounts expended on partial renewals.

Reduction in Mileage of Line open for Traffic.

8. In the event of the number of miles of line open for traffic having been reduced in consequence of the taking up of lines for the purpose of sending Permanent Way materials to France, or otherwise, due allowance should be made in each control period for such reduction both in respect of repairs and renewals, unless it can be shown that the circumstances justify the omission of such an allowance.

Reduction in Numbers of Rolling Stock in Service.

9. In the event of the number of Locomotives, Carriages or Wagons respectively, in service at the 31st December of the year of control under review being less than the number in service at the 31st December, 1913, the expenditure during the control year must be increased by an amount arrived at as follows, unless it can be shown that the capacity or first cost of the Locomotives, Carriages or Wagons respectively in service at the 31st December of the control year is not less than the capacity or first cost of the vehicles existing at the end of 1913 :—

(a) **RENEWALS.**—In the case of "Programme" Companies—*i.e.*, Companies who provide for renewals (complete or partial) on a fixed basis—the amount, if any, must be calculated in accordance with the usual practice of the Companies, increased by a percentage to bring it up to the rates of wages and prices of materials of the control period under review. In the case of other Companies, the Company must satisfy the Investigators that the amount dealt with is reasonable having regard to all the circumstances.

(b) **REPAIRS.**—In the case of "Programme" Companies who provide on a fixed basis for repairs as well as renewals, the amount, if any, must be calculated in accordance with the usual practice of the Companies, increased by a percentage to bring it up to the rates of wages and prices of materials of the control period under review. In the case of Companies who do not provide for repairs on a fixed basis, the amount is to be based upon the unit cost of repairs for the year 1913, arrived at as set out in section (b) of Clause 7 hereof.

Statistical Returns Ia and II of the Published Accounts and Returns.

10. With reference to the foregoing Clauses Nos. 7, 8 and 9 : in view of the fact that Statistical Returns IA and II have not been published since 1915 it will be necessary to submit to the Investigators, and append to the claims, such returns, duly certified by the responsible officer concerned. So far as Statistical Return IA is concerned, any reduction in the mileage due to the taking up of Permanent Way materials for France or otherwise should be indicated. So far as Statistical Return No. II—Rolling Stock, is concerned, no alteration should be made in the numbers in respect of Rolling Stock on loan to the Government for use overseas, *i.e.*, Rolling Stock for which the Government have made no payment,

Rolling Stock built or repaired otherwise than in the Companies' Workshops.

11. In the case of Rolling Stock purchased in the control period in replacement of other vehicles, or in the case of Rolling Stock repaired by outside firms, which under ordinary circumstances would have been built or repaired in the Companies' Workshops, the additional cost arising from that circumstance will not be represented by the percentage arrived at as indicated in these Instructions, and should be the subject of a separate deduction from the expenditure of the control period under review as compared with the expenditure of the year 1913. In arriving at this deduction, the amount paid in respect of such work must be put in relation to the cost which would have been incurred in doing the work in the Companies' Workshops in the control period under review, including a due allowance for workshop expenses.

It must be noted that the amount included in Abstract "B" (1), (2) and (3) under the headings of "Wages" and/or "Materials" on account of work executed by outside firms, in respect of which a special deduction is made under this clause, should be excluded from the headings referred to for the purpose of ascertaining the percentage increase under Clauses 17, 19 and 20 hereof.

Additional Renewal or Depreciation Provisions other than in respect of New Lines and/or Rolling Stock.

12. The amount allowed to a Company through Abstracts "A" and "B" (1), (2) and (3) in the Government Account, by way of a renewal or depreciation provision, in excess of, or additional to, the provision for the year 1913, in respect of works or equipment other than Permanent Way and/or Rolling Stock, should be dealt with as a deduction on the same lines as those adopted in the case of "New Lines opened" and "Additions to Rolling Stock in Service" (*vide* Clause 7 hereof).

Special Expenditure incurred in the lifting and restoration of Permanent Way due to Shortage of Materials.

13. In cases where a Company, owing to the shortage of materials, has lifted rails, &c., from a line which would not otherwise have been disturbed, for use on a more important section of line, the cost incurred in such lifting operations may be deducted from the expenditure in arriving at the claim for Arrears of Maintenance, together with the labour cost incurred in the restoration of the former line. In the event of the restoration not having been effected prior to the end of the period of control, the estimated cost of the labour to be expended in connection with such restoration should be claimed specially from the Government.

Additional Expenditure for Abnormal Wear and Tear.

14. Any amount included in the expenditure, representing additional costs incurred, as the result of abnormal wear and tear to which the Permanent Way or Rolling Stock of a Company has been subjected during the control period, should be deducted from such expenditure. Owing to the varying circumstances of the Companies, it is impossible to stereotype a method for arriving at the deductions referred to in this paragraph. Each Company, therefore, who makes such a deduction will be required to produce sufficient evidence, accompanied by a report from the Chief Executive Officer concerned, to satisfy the Government Auditor that the abnormal wear and tear so deducted has taken place and that the expenditure has been incurred during the control period in making the same good.

Allowance for Increased Rates of Wages and Prices of Materials.

15. The deduction from the expenditure in the control period, in order to make allowance for the difference between rates of wages and between prices of materials in the two periods, is to be arrived at as provided in the following Clauses, Nos. 16 to 20 inclusive.

Increased Rates of Wages. Abstract "A."

16. (a) Each Company to select in the control period under review the prescribed number of weeks. These weeks should, so far as possible, correspond with those selected in the case of the year 1913, and in the event of there being any variation, the Investigators will require to be satisfied as to the circumstances under which such variation has been made. The periods represented by the selected weeks must be fixed so as to comprise within each such period any variation which may have arisen in the rates of pay per hour, piece-work allowances, overtime allowances, or War Bonus payments.

(b) Each Company to ascertain the total actual days or hours worked by employees whose wages are mainly chargeable to Abstract "A," in each of the selected weeks, whether at ordinary, piece-work or overtime rates, together with the total amount of earnings paid to the employees in respect of such days or hours.

(c) The total earnings for each selected week to be divided by the total days or hours actually worked for the same week. This will give for each of the selected weeks the average daily or hourly wages cost. The average rates per day or hour to be calculated to not less than three places of decimals.

(It should be noted that as a result of the issue of Circular Letter No. 984, which provided for Conciliation War Bonus following the wages as from 1st January, 1917, the amount of the Conciliation War Bonus should be included with the total earnings.)

(d) The average daily or hourly wages cost for each of the selected weeks to be multiplied by the number of weeks within the period represented by that week as defined in section (a) of this Clause, and the total of the resulting figures when divided by 52 will give the average daily or hourly wages cost for the control period under review, which must be placed in relation to the average daily or hourly wages cost in the year 1913 ascertained for the purpose of previous Arrears Statements. The increase shown to be expressed in the terms of a percentage of the former average.

The percentage increase so ascertained to be applied to the total amount of the wages paid in the control period under review in connection with Abstract "A," and the figures so modified will be "the wages cost of work carried out in the control period under review at the rates of wages for the year 1913" referred to in Clause 20 hereof.

Increased Rates of Wages. Abstract "B" (1), (2) and (3).

17. (a) Each Company to select in the control period under review the prescribed number of weeks. These weeks should, as far as possible, correspond with those selected in the case of the year 1913, and in the event of there being any variation, the Investigators will require to be satisfied as to the circumstances under which such variation has been made. The periods represented by the selected weeks must be fixed so as to comprise within each such period any variation which may have arisen in the rates of pay per hour, piece-work allowances, overtime allowances, or War Bonus payments.

(b) Each Company to ascertain the total actual hours worked by employees whose wages are mainly chargeable to Abstract "B" (1), (2) and (3), in each of selected weeks, whether at ordinary, piece-work or overtime rates, together with the total amount of earnings paid to the employees in respect of such hours. Each section of Abstract "B" to be dealt with separately as provided herein.

(c) The total earnings for each selected week to be divided by the total hours actually worked for the same week. This will give for each of the selected weeks the average hourly wages cost. The average rates per hour to be calculated to not less than three places of decimals.

(It should be noted that as a result of the issue of Circular Letter No. 984, which provided for Conciliation War Bonus following the wages as from 1st January, 1917, the amount of the Conciliation War Bonus should be included with the total earnings.)

(d) The average hourly wages cost for each of the selected weeks to be multiplied by the number of weeks within the period represented by that week as defined in section (a) of this Clause, and the total of the resulting figures when divided by 52 will give the average hourly wages cost for the control period under review, which must be placed in relation to the average hourly wages cost in 1913, ascertained for the purpose of previous Arrears Statements. The increase shown to be expressed in the terms of a percentage of the former average.

The percentage increase so ascertained to be applied to the "Wages" items shown under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstract "B" (1), (2) and (3) respectively, for the control period under review, and the figures so modified will be "the wages cost of work carried out in the control period under review at the rates of wages for the year 1913" referred to in Clause 20 hereof.

Increased Prices of Materials. Abstract "A."

18. (a) In order to avoid the trouble of calculating the whole of the materials used in the control period at prices for the year 1913, not less than 80 per cent. (in value) shall be so calculated.

(b) In determining the minimum of 80 per cent. (in value) the gross debit for the materials issued and used at the actual issue prices—i.e., before taking credit for the amount

dealt with in respect of scrap materials returned should be adopted as the basis for the total value of the materials mainly charged to Abstract "A." So far as possible the materials selected should correspond with the materials selected in the case of previous Arrears Statements.

(c) The actual quantities of the materials issued and used mainly chargeable to Abstract "A," selected to represent the 80 per cent. in the control period under review, and the cost thereof at actual issue prices, to be tabulated in detail and compared in the total with the cost for similar quantities at the issue prices for the year 1913, the net increase so ascertained to be expressed as a percentage of the former cost.

The percentage increase so ascertained to be applied to the cost of all materials used in the control period under review and charged to Abstract "A," after taking credit for the amount dealt with in respect of scrap materials returned, which will give "the cost at the prices for the year 1913 of materials used in Maintenance and Renewal Work carried out in the control period under review," referred to in Clause 20 hereof.

(In ascertaining the amounts included in Abstract "A" for "Wages" and "Materials" respectively, amounts paid to Contractors for work done to be excluded from the respective items, unless it has been the practice of the Company to make an actual allocation of such amounts to the two headings.)

Increased Prices of Materials. Abstract "B" (1), (2) and (3).

19. (a) In order to avoid the trouble of calculating the whole of the materials used in the control period at the prices for the year 1913, not less than 80 per cent. (in value) shall be so calculated.

(b) In determining the minimum of 80 per cent. (in value), the gross debit for the materials issued and used at the actual issue prices—*i.e.*, before taking credit for the amount dealt with in respect of scrap materials returned—should be adopted as the basis for the total value of the materials mainly charged under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstract "B" (1), (2) and (3) respectively. So far as possible the materials selected should correspond with the materials selected in the case of previous Arrears Statements.

(c) The actual quantities of the materials issued and used mainly chargeable to the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstract "B" (1), (2) and (3) respectively, selected to represent the 80 per cent. in the control period under review, and the cost thereof at actual issue prices, to be tabulated in detail and compared in the total with the cost for similar quantities at the issue prices for the year 1913, the net increase so ascertained to be expressed as a percentage of the former cost.

The percentage increase so ascertained to be applied to the charge for "Materials," under the headings "Complete Renewals" and "Repairs and Partial Renewals" in Abstract "B" (1), (2) and (3) respectively, in the control period under review, which will give "the cost at the prices for the year 1913 of materials used in Maintenance and Renewal Work carried out in the control period under review" referred to in Clause 20 hereof.

Allowance for Increased Rates of Wages and Prices of Materials. Abstracts "A" and "B" (1), (2) and (3).

20. The difference between—

(i) The wages cost of work carried out in the control period under review at the rates of wages for the year 1913, and

(ii) The actual charge for such wages,

to be added to the difference between—

(iii) The cost at the prices for the year 1913 of materials used in Maintenance and Renewal Work carried out in the control period under review, and

(iv) The actual charge for such materials,

and applied to the actual charge for wages and materials combined, in order to give the percentage which is to be applied to the total amount of the particular Abstract or section of Abstract.

J. Joint Lines.

21. (a) The wages percentage for Abstract "A" in the case of J. Joint Lines maintained by one or more of the owning or leasing Companies to be arrived at as follows:—

(i) If wholly maintained by one Company the wages percentage arrived at by such Company for its own line to be adopted,

(ii) If maintained by two or more Companies, the wages percentages of such Companies to be combined on the basis of the wages incurred in respect of the J. Joint Line Maintenance under the supervision of, or charged by, the respective maintaining Companies.

(b) The materials percentage for Abstract " A " to be ascertained in the case of each J. Joint Line in accordance with these Instructions.

Percentages.

22. The percentages arrived at under the foregoing paragraphs to be worked out to three places of decimals.

Abstract Totals for Year 1913.

23. The totals of the Abstracts for the year 1913, as shown in the published Accounts, exclusive of the Engine Power item in Abstract " B " (1) is to be placed in relation to the expenditure (as adjusted) of the control period under review.

Transfers to (or from) Depreciation Funds or Suspense Accounts.

24. The net amounts shown in the Abstracts for the control period under review under the heading of " Transfer to (or from) Depreciation Fund or Suspense Account " must be deducted from, or added to, the " Amount chargeable for Arrears of Work," as provided in the Formulæ—*i.e.* the net amount transferred to the credit of Depreciation Funds or Suspense Accounts would be a deduction from the Arrears, and the net amount transferred from Depreciation Funds or Suspense Accounts to the credit of the Abstract would be an addition to the Arrears.

Submission of Final Claims.

25. It must be noted that all Companies are required to compile a statement in the form provided, and that no Company will be entitled to retain or receive any amount in respect of Arrears of Maintenance unless there are Arrears of Work for the whole period of control. Those Companies, therefore, making a claim in respect of either Abstract for the control period under review must reduce the amount so claimed by the net excess, if any, produced by the statements rendered in respect of that Abstract for the control period to the previous 31st December. Similarly, those Companies who show an excess of work in either Abstract for the control period under review will be required to refund the amount of such excess, with the proviso that the amount so refunded shall not exceed the amount received by the Company in respect of that Abstract for Arrears of Maintenance to the previous 31st December.

Abnormal Wear and Tear.

26. It should be noted that the claims to be made under these Instructions do not take into account the abnormal wear and tear to which the Permanent Way and Rolling Stock of certain Companies may have been subjected during the control period, so far as such abnormal wear and tear has *not* been made good during that period, and that any Company who is in a position to substantiate a claim under this head should make its claim independently of the claims submitted for Arrears of Work.

Appendix (*vide Clause 3*).FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF WAY
AND WORKS—YEARS 1917 AND 1918.

ABSTRACT "A."		£	£
Total Expenditure under all headings in Abstract "A," exclusive of Transfers to (or from) Depreciation Funds or Suspense Accounts—Year ... ..			.....
<i>Add—</i>			
Credits for supervision charged to the Government ... ..		.....
For reduction in Mileage of Line open for Traffic ... ..		.....
		-----
<i>Less—</i>			
Expenditure on Work for Government charged to Revenue— <i>e.g.</i> , Small Works under £10 ... ..		.....	.....
For New Lines opened, arrived at in the prescribed manner ... ..		.....
For Renewals and Depreciation of additional works or equipment other than Permanent Way ... ..		.....
Additional Expenditure for Abnormal Wear and Tear ... ..		.....
Special Expenditure for lifting and restoration of Permanent Way due to shortage of materials ... ..		.....
		-----

<i>Less</i> per cent. (arrived at in the prescribed manner) to reduce to 1913 cost ...			.....

Expenditure in Year adjusted for comparison with the Year 1913 ... ..			.....
Total of Abstract "A," Year 1913, <i>as per</i> Printed Accounts ... ..			.....

Arrears of Work, Year , subject to addition of 15 per cent. ... ..			.....
<i>Add</i> 15 per cent.... ..			.....

Amount chargeable for Arrears of Work, Year ... ..			.....
<i>Deduct (or Add)—</i>			
Amount transferred to credit or debit of Depreciation Funds or Suspense Accounts, Year ... ..			.....

Net amount to be claimed for Arrears of Work, Abstract "A," Year ...			£

FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF ROLLING
STOCK—YEARS 1917 AND 1918.

ABSTRACT " B " (1), (2) AND (3).

	£	£
Total Expenditure under all headings in Abstract, exclusive of Transfer to (or from) Depreciation Funds or Suspense Accounts, and of the Engine Power item in " B " (1)—Year ... ..		.....
<i>Add—</i>		
Credits for Supervision and Profit on War Manufactures ... ..	.....
For reduction in Rolling Stock in service, arrived at in the prescribed manner	.....	.....
<i>Less—</i>		
Expenditure on Work for Government charged to Revenue— <i>e.g.</i> , Small Works under £10; Alterations to Rolling Stock for the Military Authorities ... ..	.....	.....
For additions to Rolling Stock in service arrived at in the prescribed manner ... ..	.....	.....
For Renewals and Depreciation of additional equipment other than Rolling Stock	.....	.....
Additional Expenditure for Abnormal Wear and Tear ... ..	.....	.....
Additional Cost of Rolling Stock purchased from, or repaired by, outside firms	.....	.....
<i>Less</i> per cent. (arrived at in the prescribed manner) to reduce to 1913 cost ... ..		.....
Expenditure in Year adjusted for comparison with the Year 1913		£
The above process to be applied in the case of each of the 3 Sections of Abstract " B " separately. The resulting figures to be totalled thus:—		
B (1)	.....
B (2)	.....
B (3)	.....
Total of Abstract " B " (1), (2) and (3), Year 1913, as per printed Accounts, exclusive of the Engine Power item in the case of " B " (1):—		
B (1)	.....
B (2)	.....
B (3)	.....
Arrears of Work, Year , subject to addition of 15 per cent. ... ..		.....
Add 15 per cent.... ..		.....
Amount chargeable for Arrears of Work, Year ... ..		.....
<i>Deduct (or Add)—</i>		
Amount transferred to credit or debit of Depreciation Funds or Suspense Accounts, " B " (1), (2) and (3) combined, Year ... ..		.....
Net amount to be claimed for Arrears of Work, Abstract " B " (1) (2) and (3), Year		£

VII.—FORMAL APPROVAL OF SUPPLEMENTARY CLAUSES TO AGREEMENT AND CORRESPONDENCE IN REGARD TO ARREARS OF MAINTENANCE OTHER THAN ABSTRACTS "A" AND "B."

Document Number.	PAGE
(71) Supplementary Clauses to the Railway Agreement, as finally approved—known as the Pink Book	89
(72) Letter of 12th August, 1916, from the Treasury to the Board of Trade, stating that they had been in communication with the Railway Executive Committee and the Board with regard to the Supplementary Agreement and enclosing the Clauses proposed	94
(73) Letter from the President of the Board of Trade to Sir Herbert Walker, inquiring whether all the controlled Railway Companies are prepared to accept the proposed Clauses	95
(74) Letter of 27th October, 1916, from the Railway Executive Committee to the Board of Trade, stating that all the Companies agreed to the proposed Clauses, and asking for an assurance with regard to Arrears of Maintenance outside Abstracts "A" and "B"	95
(75) Letter of 8th November, 1916, from the Board of Trade to the Treasury, stating that they propose to give the Companies the assurance asked for above	96
(76) Letter of 9th December, 1916, from the Treasury to the Board of Trade, stating that they will be prepared under certain conditions to consider the extension of the Arrears of Maintenance arrangements to Abstracts other than "A" and "B"	96
(77) Letter of 16th December, 1916, from the Board of Trade to the Railway Executive Committee, forwarding a copy of Treasury letter of 9th December, 1916	97
(78) Letter of 23rd December, 1916, from the Railway Executive Committee to the Board of Trade, asking for a specific assurance that the Railway Companies will have a claim against the Government at the end of the period of the war, or at the end of the period of control, in regard to Arrears of Maintenance in the case of works not included in any arrangements now made or to be made for the payment of Deferred Maintenance	97
(79) Letter of 6th January, 1917, from the Board of Trade to the Treasury, stating that they assumed that the position was as stated by the Railway Executive Committee in their letter of 23rd December, 1916	98
(80) Letter of 23rd January, 1917, from the Treasury to the Board of Trade, giving the assurance asked for above	98

Vide also Appendix XVII.

SUPPLEMENTARY CLAUSES TO AGREEMENT WITH HIS MAJESTY'S GOVERNMENT.

Issued to the Railway Companies on 14th November, 1916, and known as the PINK BOOK.

I. Capital Expenditure.

Interest to be allowed upon all sums expended upon (1) works (including in that term rolling stock and plant and also the land used in connection with works) brought into use since 31st December, 1912, or (2) mineral support in connection with lines actually in use during the period of control which has been acquired since 31st December, 1912, under the mining clauses of the Railway Clauses Consolidation Act, 1845, or similar statutory provisions, which are properly chargeable to capital and have in fact been so charged.

1. Works brought into Use (or Mineral Support acquired) during 1913.

Interest to be allowed thereon in 1914, from 5th August, to the date corresponding to the date in 1913, when the works were brought into use (or mineral support acquired), and in subsequent years of control for the period in those years which corresponds with the period in 1913, during which the works were not in use (or mineral support not acquired).

2. Works brought into Use (or Mineral Support acquired) during 1914, or in Subsequent Years included in the Period of Control.

(a) Prior to the 5th August, 1914.

Interest to be allowed thereon from the 5th August, 1914, throughout the period of control.

(b) From the 5th August, 1914.

Interest to be allowed thereon from the date when such works were brought into use (or mineral support acquired) and throughout the remainder of the period of control.

The rate of interest to be 4 per cent. per annum for the whole period of control.

Regulations in regard to the calculation of interest in the case of works brought gradually into use, and generally as to giving effect to this clause, to be agreed between the Government Accountants and the Railway Executive Committee. Such regulations shall include a provision that, in ascertaining the capital expenditure on which interest is to be calculated, deduction must be made for the value of works replaced. (For agreed Regulations, see pages 10 and 11 hereof.)

The Government to pay in three equal monthly instalments 85 per cent. of the amounts claimed under this head in respect of the period to 31st December, 1915, and the balance from time to time as soon as amounts due are agreed.

II. Stores.

At the end of the period of Government control, a cash payment to be made by the Government to each of the controlled Companies equal to the difference between (a) the book value of the stores in stock at the 5th August, 1914, and (b) the value of the same quantities of similar stores calculated

(1) As to the extent those quantities are in stock at the end of the control period, at the book values then ruling.

(2) As to the shortage in the quantity at the end of the control period as compared with the quantity at the beginning, at replacement prices.

The replacement prices to be agreed between the Treasury and the Railway Executive Committee as fairly representing the prices at which the shortage could be made good, having regard to quoted market prices at the end of the control period, the probable movement of prices and the other circumstances of the case. Any amounts already received by the Companies for replacement value of material used on work done for the Government must be brought into account when fixing the amount to be allowed under this Clause.

Regulations in regard to the calculation of prices, the definition of stores, and generally as to giving effect to this Clause, to be agreed between the Government Accountants and the Railway Executive Committee.

III. Allowances to Dependants of Men serving with H.M. Forces.

As from the commencement of the period of control the Government to bear the cost of any allowance made by a Company in accordance with the Circular Letters issued,

or which may, with the assent of the Government, be hereafter issued by the Railway Executive Committee on the matter to the dependants of an employee serving with H.M. Forces (other than a commissioned officer), whether such allowance exceeds 10s. a week or not.

In the case of commissioned officers, the arrangement set out in Circular Letters Nos. 274, 277, 288 and 321 issued by the Railway Executive Committee to continue.

IV. Damage to Railway Property by Bombardment or Hostile Aircraft.

(1) The Government to bear the cost of making good any damage to property or plant (other than property the rent of which would normally be included in the lower half of Account No. 8 of the Statutory Form of Railway Accounts) caused by bombardment or hostile aircraft (including any damage which may be caused through measures taken against such bombardment or hostile aircraft); whether such damage has been or can be made good during the period of Government control or not.

(2) Any premiums paid in respect of any such property or plant already insured against such risks to be included in the Companies' ordinary working expenditure, and credit to be given to the Government for any sums received by the Companies under policies of insurance.

(3) In the case of premises held by a Company on lease or agreement, and which if owned by the Company would fall within clause (1), the Government to indemnify the Company to the extent of their legal liability under the terms of the lease or agreement in each case.

V. Charges for Services rendered by Railway Companies to the Government.

The rules to be observed as regards charges for services rendered to, or accommodation or other things provided for, Government Departments by controlled Railway Companies shall be those set forth in the Schedule annexed hereto, except so far as may be otherwise agreed from time to time between the Treasury and the Railway Executive Committee.

VI. Adjustment of Accounts.

Every Company to give an undertaking to repay to the Treasury or to any person nominated by them any sums which on a final settlement of the accounts of any period ending 31st December may be found to have been received or retained by such Company in excess of the amounts due to them, together with interest at the rate of 5 per cent, to run from the 1st March following the close of any such period.

CHARGES FOR SERVICES RENDERED BY RAILWAY COMPANIES TO THE GOVERNMENT.

Schedule referred to in Clause V of the Supplementary Clauses to Agreement with His Majesty's Government.

Section I.

A. Direct cash payments will be made to the Railway Companies by the Government Departments concerned for—

All services rendered to Public Departments other than to the Admiralty, War Office, or Ministry of Munitions.

B. Direct cash payments will be made by the Admiralty, War Office, or Ministry of Munitions, as follows:—

1. Special services called for by the Admiralty, War Office, or Ministry of Munitions undertaken by the Companies outside their ordinary functions of transportation and warehousing, which involve constructional services or the supply or manufacture of stores or plant for those departments, or the repair of property belonging to them, together with the labour cost in connection with any of those services except as otherwise herein provided for. A separate account is to be kept of the expenditure incurred under this head, and payment made in accordance with the financial procedure arranged with the Railway Executive Committee.

2. Season Tickets.

3. Conveyance of Dockyard Officials and Dockyard Workmen between their places of residence and duty.

4. Agreed payments for occupation of and for damage to property the proceeds of which would not be included ordinarily "above the line" in Account No. 8 of the Schedule to the Railway Companies (Accounts and Returns) Act, 1911.

5. (A) Supplies of Water, (B) Supplies of Gas and Electric Lighting, and (C) Wages of Staff employed, under pre-war contracts or agreements applying to these groups (A), (B) or (C).

6. Work done of £10 and upwards in value in each case for or on His Majesty's ships and other ships under the control of the Admiralty, but not on Railway-owned boats. (See Section II, paragraph 14.)

7. Any other services which are agreed by the Companies and the Admiralty, War Office, or Ministry of Munitions, to be of a similar character to those detailed above, the cost of which is not chargeable to working expenses and recoverable through the operation of the guarantee.

The following item has been agreed since the issue of Circular Letter No. 655:—

8. Conveyance of members of Naval and Military Forces travelling upon Police Warrants endorsed "On Admiralty Service" or "Military." (See Circular Letters Nos. 589 and 721.)

Section II.

Direct cash payments will not be made to the Railway Companies by the Admiralty, War Office, or Ministry of Munitions, in the following cases, the cost being charged by the Companies in normal course to working expenses and recovered through the operation of the guarantee:—

1. Conveyance of Naval and Military Officers and Men travelling under Warrants.
2. Conveyance of Civil Officers and Men (including Dockyard Workmen) belonging to the Admiralty and Naval Establishments when travelling on duty under Warrants.
3. Conveyance of wives, widows and children of Members of the Naval and Military Forces, and other persons when entitled to be conveyed at the public expense, on Naval and Military Warrants.
4. Conveyance of Members of the Naval and Military Forces travelling upon Warrants endorsed "On repayment."
5. Conveyance of personal luggage of the foregoing up to the authorised quantity, and Government baggage.
6. Conveyance of Corpses of Members of the Naval and Military Forces, also of Civilians (e.g., Dockyard Workmen dying when away from their Dockyard on detached duty) allowed to be carried at the public expense.
7. Special trains on Naval or Military service, under instructions from the Admiralty or War Office.
8. Conveyance (including all services provided for in the rate) of stores, arms and ammunition and other necessaries and things the carriage of which is authorised on Admiralty Notes (D. 80), War Office Notes (G. 980 or G. 996) or Munitions Notes (R. 365). In cases where traffic is carried without the use of these Notes, the Companies will clear the charges on certification by the Department concerned that the charges are a Government liability.
9. Conveyance of Carrier Pigeons for the Naval and Military services.
10. Meals supplied to Naval Ratings under the established meal order system.
11. Small Steamboat, Railway or Dock Works (other than Stores) under £10 each in value not otherwise herein provided for.
12. Controlled Railway Companies' Dock and Harbour Dues and Berthing and Mooring charges; also out payments on through traffic to publicly owned Ports, Docks, and Harbours—e.g., Port of London Authority, and Mersey Dock and Harbour Board.
13. Water, Gas Power or Electrical Lighting obtained from the Railway Companies' own sources of supply. Where any special arrangement is installed or provided for these purposes to the Government Departments and the user can be measured, and the charges raised thereon have to be paid to third parties, the Company making the payment will be reimbursed by the Department for which the supply is rendered.
14. Work done by the Companies or by outside firms at the request of the Companies for and on any Railway-owned ships forming part of His Majesty's Navy for the time being; also cost of food, working of vessels and all other charges in connection therewith.
15. Damage done by His Majesty's ships to Railway-owned boats not requisitioned by the Crown, the charge for which in any one case does not exceed £100.
16. Damage other than that provided for in Clause 15 (to Piers, Stations and other property for which the Railway Companies are responsible) not exceeding £100 in each

case and not due to the culpable negligence or mischief of the servants of the Crown. Where the damage is traceable to the culpable negligence or mischief of the servants of the Crown, irrespective of amount, and in all cases where the value exceeds £100, a direct cash reimbursement is to be made by the Department concerned to the Company affected.

17. Loss of Railway-owned steamers requisitioned by the Government.

18. Rent of premises which would normally fall above the line in Account No. 8 of the Railway Companies' Statutory Form of Accounts.

19. Carriage of Timber for His Majesty's Office of Works as laid down in Circular Letter No. 602, or any other traffic service for which the Railway Executive Committee have agreed not to demand cash payments.

20. Maintenance of Sidings constructed on Government Account, whether within or outside the boundary of a Company's property.

The following items have been agreed since the issue of Circular Letter No. 655 :—

21. Teeming or Tipping and Trimming of Admiralty Coal (including that consigned to the Admiralty Agents, Messrs. Mathwin & Son, or such other authorised agents of whom the Admiralty may notify the Railway Executive Committee) for ships of His Majesty's Navy, including Transports. (See Circular Letter No. 713.)

22. Conveyance (including all services provided for in the rate) on behalf of the Admiralty, War Office, or Ministry of Munitions, of Stores, Arms and Ammunition, and other necessaries and things intended for the Russian and other Allied Governments—the carriage of which is authorised on Admiralty Notes (D. 80), War Office Notes (G. 980 or G. 996), or Munitions Notes (R. 365). (See Circular Letter No. 713.)

Section III.

Any service, not hereinbefore specified, shall fall under Sections I or II, but the question as to under which section it shall fall shall in default of agreement between the Companies and the Department concerned be referred to the Treasury.

Section IV.

Carriers' and Transit Notes.

1. The issue of Admiralty, War Office and Ministry of Munitions Notes will henceforth be regarded as being restricted to cases where the liability for conveyance is a charge against the Government.

2. There will be no change in the existing forms of Admiralty (D. 80) and War Office (G. 980 and G. 996) Notes.

3. The existing procedure will be followed as regards the disposal of Admiralty and War Office Notes where both Consignor and Consignee are Naval or Military Officers or Departments; but for the future, instead of pricing and raising charges on Notes where the Consignor or Consignee is a Contractor, the Companies will collect and forward the Notes to the Admiralty or War Office weekly for scrutiny, with a view to establishing Government liability. Any cases where such notes have been wrongly used for traffic for which the Government is not liable will be referred back to the Companies, who will advise the Department concerned of the amount chargeable, and the Department will take steps to effect recovery, retaining the amounts so recovered. (The Companies will give any information required as to the Rates to be charged, and in the case of any questioned Rates, the Companies will advise the Department what reductions (if any) can be allowed, and the Departments will adjust matters with the Contractors.)

4. The Companies will return weekly to the Ministry of Munitions the Notes in their possession upon which free conveyance has been afforded, and the Ministry of Munitions will compare these Notes currently with the Contracts, and where it is found that the Contracts do not provide for carriage being a Government liability, the Ministry will deduct the carriage in the Cost Account and retain the sum so deducted. (The Companies will give the Ministry any information required as to the rates to be charged. In the case of any questioned rates the Companies will advise the Ministry of Munitions what reductions (if any) can be allowed, and the Ministry will adjust matters with the Contractors.)

5. The Companies will draw the attention of the Admiralty, War Office, or Ministry of Munitions to any Notes which *prima facie* appear to be irregular, and will on the application of the Admiralty or War Office be prepared to select specified classes of Notes and send them to those Departments for scrutiny.

Section V.

All existing outstanding accounts, irrespective of the Clauses of this Memorandum under which they may fall, to be treated as settled and closed so soon as the Departments concerned return the accounts rendered with endorsements that the charges are Government liabilities, when the Companies will cancel the transactions in their books and recover the sums due through the Compensation Account.

INTEREST ON CAPITAL EXPENDITURE.

REGULATIONS IN REGARD TO THE COMPILATION OF CLAIMS FOR INTEREST ON CAPITAL EXPENDITURE.

1. Definition of Capital Expenditure.

Capital Expenditure means sums charged to Capital (including expenditure on Leased and Worked Lines), or in the case of land subject to a rent charge or feu duty, the capitalised value of such rent charge or feu duty, calculated at 25 years' purchase, in connection with—

(1) The first seven items in Account No. 8 in respect of lines, works, rolling stock and plant (hereinafter described as "works, &c."), brought into use during or subsequent to the year 1913, irrespective of the period during which the expenditure was incurred.

(2) Purchase money or compensation paid for mineral support acquired under the mining clauses of the Railways Clauses Consolidation Act, 1845, or similar statutory provisions, during or subsequent to the year 1913, in respect of Lines, &c., actually in use.

The cost of any works replaced to be deducted from the capital expenditure on any new works upon the cost of which interest is charged.

2. Works, &c., brought into Use in Sections.

In the case of works, &c., sections of which are brought into use from time to time, interest to be allowed upon the cost of the section brought into use in so far as that can be separated from the cost of the remainder of the work, together with a proportion of such items of cost as cannot be so separated corresponding to the proportion of the entire work which is brought into use.

3. Land.

Except in the case of land, the rent of which would before the construction of the works, &c., in question have normally been included in the lower half of Account No. 8, the purchase price of the land upon which any of such works, &c., are constructed shall not be taken into account unless it can be shown that it was specifically acquired for such purpose.

4. Certificates.

The actual dates upon which the works, &c., or sections of works, &c., are completely brought into use must be ascertained, and the following certificates given by the Company's Chief Departmental Officer concerned :—

(a) *Dates for Works, &c.*

That the works, &c., or sections of works, &c., specified were brought into use on the dates shown.

(b) *Allocation of Cost as between Different Sections of Work.*

That so far as the expenditure can be divided between the respective sections of works, &c., the expenditure shown is solely in respect of the section or sections brought into use ; and that in those items the cost of which cannot be divided between the respective sections (such as excavations, under-structures, station roofs, &c.) the expenditure shown is the proportion of the whole corresponding to the proportion of the entire work which is brought into use.

(c) *Land.*

That the land upon which the works, &c., were constructed was specifically acquired for such purpose, or that the rent of such land would before the construction of the works, &c., in question have normally been included in the lower half of Account No. 8.

5. Calculation of Interest.

(a) *Rate to be 4 per cent. per annum for the Whole Period of Control.*

(b) *Works, &c., brought into Use during 1913.*

Interest to be calculated during the control period, for such portions of that period as correspond with the period in 1913 prior to the date on which the work was brought into use, *e.g.* :—

Works, &c., brought into use 1st April, 1913—

Interest will be allowed during the control for the months of January, February and March in the year 1915, and for these months in subsequent years.

Works, &c., brought into use 1st October, 1913—

Interest will be allowed during the control for the months of January to September, inclusive—*i.e.*, from 5th August to 30th September in the period to 31st December, 1914, and for the first nine months of 1915, and for these months in subsequent years.

(c) *Works, &c., brought into Use during the Period 1st January to 5th August, 1914.*

Interest to be calculated throughout the control period.

(d) *Works, &c., brought into Use subsequent to 5th August, 1914.*

Interest to be calculated as from the date on which the work is brought into use and throughout the remainder of the control period.

6. These regulations are supplementary to and not in substitution for the arrangement set out in Clause I, page 3 hereof.

(72)

F. 184.

21119/16.

TREASURY CHAMBERS.

12th August, 1916.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to state that, as you are aware, They have been in communication with the Railway Executive Committee and your Department with a view to securing a more specific interpretation of certain unsettled points in connection with the Railway Agreement.

It is now necessary to submit the new proposals to the Railway Executive Committee for their concurrence, and My Lords have thought it most convenient to set them out in the form of a draft letter which They suggest might, if the Board of Trade concur, be addressed by the President to the Acting Chairman of the Committee.

A copy of the draft letter approved by Their Lordships is enclosed herewith, together with a copy of the Schedule referred to in Section V of the draft letter, which has also been approved of by Their Lordships.

When the Railway Executive Committee has formally notified its acceptance of the proposals set out in the President's letter and the Schedule, My Lords would be glad to be informed. They also suggest that the Admiralty, the War Office, and the Ministry of Munitions should also be furnished by your Department with copies of the relevant documents.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,

Board of Trade.

(The draft letter contained the Supplementary Clauses to the Agreement. These clauses as finally approved are printed in Document No. 71.)

(73)

R. 3655.

F. 184.

BOARD OF TRADE.

23rd August, 1916.

My dear Sir Herbert Walker,

With reference to Mr. Marwood's letter to yourself of the 12th October, 1914,* and subsequent correspondence on the subject of the Agreement as to the compensation to be paid by His Majesty's Government to the Railway Companies under the Regulation of the Forces Act, 1871, and to the recent discussions between representatives of the Treasury and of the Railway Executive Committee, I am now in a position to state that the Treasury have signified their readiness to accept the Clauses, of which copies are enclosed, as interpreting and amplifying that Agreement, on the understanding that the Clauses are accepted in their entirety by all the Companies concerned.

As the matter is one which will have to be dealt with by the individual Boards of Directors, the Board of Trade will be obliged if the Railway Executive Committee will take steps to ascertain whether the controlled Railway Companies are prepared to accept the Clauses.

Yours faithfully,

(Signed) WALTER RUNCIMAN.

The Acting Chairman,

Railway Executive Committee.

Document No. 11.

(74)

F. 184.

W.

RAILWAY EXECUTIVE COMMITTEE,

35, PARLIAMENT STREET, WESTMINSTER, S.W.

27th October, 1916.

Sir,

I am pleased to be able to inform you that we have received assent to the proposals contained in your letter of the 23rd August from all the Companies. Some of the Companies, however, have raised a question with regard to arrears of maintenance; one Company in particular, whose interest in docks is very large in proportion to the size of its Railway undertaking, is pressing strongly that their position should be clearly defined before the new proposals are accepted. In the Railway Accounts, Docks are not included in the same Abstract as the permanent way and the works relating to it, and, under the arrangements come to with the Government, it is only the arrears on permanent way (Abstract A) and engines, carriages and wagons (Abstract B) that are included in the monthly estimates and paid for by the Government currently.

So far as I am aware, there is no difference in principle between one Abstract and another, but it is not so easy to devise a working formula for the other Abstracts; and Abstracts A and B cover by far the greater part of the works of maintenance.

We have told the Companies that arrears of maintenance in the case of works not included in those Abstracts will, under the existing arrangement with the Government, be dealt with at the conclusion of the war, as in the case of Steamships, which you will remember were specially mentioned in connection with the recent negotiations. I do not think there is any doubt as to the position, because the general principle of making good to the Companies their arrears of maintenance has been recognised by the Government from the first; but, as the point has definitely been taken in connection with the present settlement, the Executive Committee would be glad to have a definite confirmation by the Treasury of their understanding of the position.

Of course, there will be nothing to prevent the Companies submitting to the Treasury a scheme for including further items of maintenance arrears in the monthly statements—that is, extending to other Abstracts the procedure already adopted in the case of Abstracts A and B—so as to avoid an undue accumulation of detail at the end of the Government

control ; but the Executive Committee are not in a position to do this at the present moment, and any such proposal would, I presume, have to be dealt with on its merits when made.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,
Acting Chairman.

The President,
Board of Trade.

(75)

R. 3655.

F. 184.

BOARD OF TRADE.
8th November, 1916.

Sir,

With reference to your letter of the 12th August (No. 21119) and its enclosures on the subject of the Agreement as to the compensation to be paid by His Majesty's Government to the Railway Companies under the Regulation of the Forces Act, 1871, I am directed by the Board of Trade to transmit to you, for the information of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a letter* from the Railway Executive Committee notifying the acceptance by the Companies of the Clauses approved by Their Lordships for the interpretation and amplification of the Agreement in question.

I am to add that, subject to the views of the Lords Commissioners, the Board propose to express agreement with the remarks made in the third paragraph of the Committee's letter respecting arrears of maintenance.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury.

* Railway Executive Committee letter of 27th October, 1916, Document No. 74.

(76)

F. 184.

29991/16.

TREASURY CHAMBERS.
9th December, 1916.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Moggridge's letter of the 8th ultimo (R. 3655) enclosing copy of a letter of the 27th October last in which the Railway Executive Committee, while notifying the concurrence of the controlled Railway Companies in the Memorandum enclosed in Treasury letter 21119/16 of the 12th August last, raise a question in regard to arrears of maintenance not falling under Abstract A or B of Account No. 10 in the Schedule to the Railway Companies (Accounts and Returns) Act 1911.

In reply, I am to request you to inform the Board of Trade that My Lords will be prepared, if necessary, to consider the extension to other Abstracts of the procedure already adopted in the case of Abstracts A and B, provided that the arrears involved are of substantial amount and that satisfactory working formulæ can be devised.

I am to take this opportunity of enclosing copy of an Appendix (No. 1)* to the Schedule of services to be included in and excluded from the operation of the guarantee, which My Lords understand to have been accepted by all the parties concerned, and I am to request that you will inform the Railway Executive Committee that They have no observations to offer in regard thereto. The Admiralty, War Office and Ministry of Munitions have been informed accordingly.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

* This was embodied subsequently in the Supplementary Clauses as approved, Document No. 71.

(77)

R. 3655.

F. 184.

BOARD OF TRADE.

16th December, 1916.

Sir,

With reference to your letter of the 27th October last (./W) on the subject of the Supplementary Agreement as to the compensation to be paid by the Government to the Railway Companies under the Regulation of the Forces Act, 1871, I am directed by the Board of Trade to transmit to you, for the information of the Railway Executive Committee, the enclosed copy of a letter* from the Treasury on the question raised in your letter respecting arrears of maintenance.

I am, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Acting Chairman,
Railway Executive Committee.

* Treasury letter of 9th December, 1916, Document No. 76.

(78)

F. 184.

P. Pad.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

23rd December, 1916.

Sir,

I am obliged for your letter (R. 3655) of the 16th instant on the subject of the Supplementary Agreement as to the compensation to be paid by the Government to the Railway Companies under the Regulation of the Forces Act, 1871. I am afraid the letter from the Treasury, dated 9th December, does not go quite far enough. It is noted that Sir Thomas Heath states that My Lords of the Treasury will be prepared if necessary to consider the extension to other Abstracts of the procedure already adopted in the case of Abstracts A and B, provided that the arrears involved are of substantial amount and that satisfactory working formulæ can be devised.

If you will read the last paragraph of my letter of the 27th October you will notice that it is therein stated that the Executive Committee are not in a position at present to put forward such a proposal. What certain Railway Companies, however, do ask is that the Treasury shall agree that the Railway Companies will have a claim against the Government at the end of the period of the war or at the end of the period of control in regard to arrears of maintenance in the case of works not included in any arrangement now made or to be made for the payment of deferred maintenance.

Will you be good enough to put this point definitely to the Treasury and get an understanding from them: I cannot think that there can be any question of difference, or that there can be any doubt upon the matter.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,*Acting Chairman.*

The Assistant Secretary
(Railway Department),
Board of Trade, London, S.W.

(B 16959)

G

(79)

R. 3655.

F. 184.

BOARD OF TRADE.

6th January, 1917.

Sir,

With reference to your letter of the 9th December (No. 29991) respecting the Supplementary Agreement with the controlled British Railway companies, I am directed by the Board of Trade to transmit to you, for the information and observations of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a letter* from the Railway Executive Committee on the question of arrears of maintenance which do not fall under Abstract A or B of Account No. 10 in the Companies Statutory Accounts.

The Board of Trade assume that the position is as indicated in the second paragraph of the Committee's letter.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury.

* Railway Executive Committee letter of 23rd December, 1916, Document No. 78.

(80)

F. 184.

867/17.

TREASURY CHAMBERS.

23rd January, 1917.

Sir,

In reply to Mr. Moggridge's letter of 6th instant (R. 3655) I am directed by the Lords Commissioners of His Majesty's Treasury to request you to convey to the Board of Trade, for communication to the Railway Executive Committee, Their Lordships assurance that They recognize that the Railway Companies will have a claim against His Majesty's Government at the end of the period of the war or at the end of the period of control in regard to arrears of maintenance in the case of works falling within the scope of the General Agreement and not included in any special arrangement now made or to be made for the payment of deferred maintenance.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(A copy of this letter was forwarded by the Board of Trade to the Railway Executive Committee on 30th January, 1917.)

**VIII.—INSTRUCTIONS IN REGARD TO THE PREPARATION OF THE CLAIMS FOR
ARREARS OF MAINTENANCE AND RENEWAL WORK, ABSTRACTS "A" AND
"B"—YEAR 1919.**

Document Number.	PAGE
(81) Letter of 29th July, 1920, from the Railway Accountants' Committee to the Ministry of Transport, as to the adoption of certain Amendments to a draft Circular letter, subject to the question of the retrospective application of Clauses relating to permanent way and rolling stock sent to France being considered later	100
(82) Letter of 31st July, 1920, from Ministry of Transport to the Chairman of the Railway Accountants' Committee, stating that the Amendments referred to above are approved, subject to the retrospective application of Clauses relating to permanent way and rolling stock sent to France.	100
(83) Letter of 9th September, 1920, from Ministry of Transport to the Railway Accountants' Committee, approving formally the draft Circular letter to the Railway Companies ...	101
(84) Circular Letter No. S. 111 of 13th September, 1920, from the Standing Committee of General Managers, to the Railway Companies containing Instructions for the preparation of statements for the year 1919	101

MINISTRY OF TRANSPORT CORRESPONDENCE.

(81)

45.

RAILWAY ACCOUNTANTS' COMMITTEE,
16, GREAT GEORGE STREET,
WESTMINSTER, S.W.

29th July, 1920.

Dear Sir,

ARREARS OF MAINTENANCE AND RENEWAL WORK, ABSTRACTS "A" AND "B."
YEAR 1919.

MAINTENANCE AND DEPRECIATION OF ADDITIONAL WORKS AND EQUIPMENT (ABSTRACTS
"A" AND "B") OTHER THAN PERMANENT WAY AND ROLLING STOCK.

With reference to the Meeting held at the Ministry this morning, I shall be glad to have your confirmation of the assent you then gave to the suggestions made by the Accountants which are shown on the attached Memorandum,* on the amendments proposed in your letter of the 9th June.†

So far as the question of permanent way and rolling stock sent to France is concerned, I understand from Mr. Wood you are prepared to adopt the suggestion made by Sir Alexander Butterworth that, in order to hasten the issue of the Instructions, the question of the retrospective application of the Clauses proposed by you in this regard should be left over for the present—*i.e.*, you are prepared to delete from additional Clause (2) the words "in each Control period." In these circumstances Sir Alexander Butterworth is prepared to recommend to the other members of the Compensation Accounts Sub-Committee the acceptance of the Arrears of Maintenance Instructions for 1919 as now amended, together with the instructions dealing with the maintenance and depreciation of additional works and equipment (Abstracts "A" and "B") other than permanent way and rolling stock as agreed at the Meeting this morning.

Yours faithfully,

(Signed) J. CHAS. ISAAC.

Sir George Beharrell,
Ministry of Transport.

* This was a schedule of alterations which were subsequently embodied in Circular Letter S. 111—Document No. 84.

† This letter set out the proposed amendments to the Accountants' Committee's original draft instructions.

(82)

MINISTRY OF TRANSPORT,
FINANCIAL AND STATISTICAL DEPT.

31st July, 1920.

Sir,

I am directed by the Minister of Transport to acknowledge receipt of your letter, No. 45, of 29th inst., with reference to Arrears of Maintenance and Renewal Work, Abstracts "A" and "B," for year 1919, and the Depreciation and Maintenance of Additional Works and Equipment, and to inform you that the Minister concurs in the amendments shown on the Schedule* attached to your letter, subject to the question of the retrospective application of the Clauses relating to Permanent Way and Rolling Stock sent to France being considered by the Railway Companies Association.

Sir Eric Geddes will be glad if you will let him have six copies of the Instructions which you are about to issue to the Railway Companies.

I am, Sir,

Your obedient Servant,

(Signed) J. G. BEHARRELL.

J. Chas. Isaac, Esq., C.B.E.,
16, Great George Street, S.W.

* This was a schedule of alterations which were subsequently embodied in Circular Letter S. 111—Document No. 84.

(83)

MINISTRY OF TRANSPORT,
FINANCIAL AND STATISTICAL DEPT.
9th September, 1920.

F. 1182 and 1463.

Sir,

ARREARS OF MAINTENANCE AND RENEWAL WORK, ABSTRACTS "A" AND "B."
YEAR 1919.

I am directed by the Minister of Transport to refer to Sir George Beharrell's letter of the 31st July last, and to say that Sir Eric Geddes approves of the draft Circular letter* enclosed with your communication of the 6th inst. and agrees to it being issued to the Railway Companies.

The Minister will be glad to be furnished with 12 copies of the Instruction so soon as it is circulated to the Railway Companies.

I am, Sir,

Your obedient Servant,

(Signed) C. HURCOMB.

The Chairman,

Railway Accountants' Committee,
16, Great George Street, S.W.

* The letter of the 6th inst. forwarded a final draft of the Instructions (printed below as Document No. 84). This draft was approved by the Treasury.

(Circular Letter No. S. 111.)

(84)

SPECIAL COMMITTEE OF STANDING COMMITTEE OF GENERAL MANAGERS,
35, PARLIAMENT STREET,
WESTMINSTER, S.W.

13th September, 1920.

Dear Sir,

ARREARS OF MAINTENANCE AND RENEWAL WORK, ABSTRACTS "A" AND "B" (1), (2)
(3). YEAR 1919.

1. With reference to Circular Letter No. 1650* ; will you please take steps to prepare statements for the year 1919 in accordance with the Instructions appended thereto, on the lines adopted for previous arrears claims, whether your Company has a claim for arrears of maintenance or not, and render the formulæ only by 30th September next to 16, Great George Street, Westminster, S.W. before being investigated, in order that any adjustment between provisional payments made through the monthly estimates and 85 per cent. of the amounts now shown to be due to the end of 1919 may be given effect to. The complete statements will be investigated subsequently by Investigators from the Company appointed to examine your account of the net receipts.

2. With regard to Clauses 16 and 17 of the Instructions, the prescribed number of weeks for the year 1919 is five for Abstract "A" and four for Abstracts "B" (1), (2) and (3).

3. In view of the concessions made to men in the conciliation grades in connection with holidays with pay, it will be necessary when such are not reflected in the average daily or hourly wage, to deal with the amount actually incurred during 1919 and included in Abstracts "A" and "B," in respect of holidays with pay in excess of holidays (if any) granted with pay in the year 1913, as a special deduction in the formulæ, in the same way as "Expenditure on Work for the Government charged to Revenue."

4. In ascertaining the increased cost of the wages paid in 1919 as compared with 1913, under Clauses 16 and 17 of the Instructions, the bonus payments to the supervisory staff under Circular Letter No. 1901 are to be excluded from the 1919 wages figures, and dealt with as a special deduction in the formulæ.

5. Any expenditure incurred during 1919 in respect of the repair of rolling stock loaned to your Company by His Majesty's Government should form a deduction from Abstract "B" for arrears of maintenance purposes.

* This is the letter issued to the Railway Companies enclosing the Brown Book.

(B 16959)

G 3

6. In the event of any deduction to which a Company may be entitled under Circular Letter No. 1962 in respect of "Expenditure incurred in the Provision of Temporary Accommodation for Female Staff," relating to expenditure incurred prior to the year 1919, it will be necessary for such expenditure to be increased by a percentage to bring it up to the 1919 rates of wages and prices of materials—*i.e.*, the expenditure should first be reduced to the 1913 cost, and this latter figure increased by the necessary percentage to bring the amount up to the 1919 rates of wages and prices of materials.

7. Clause 8 of the Instructions appended to Circular Letter No. 1650 to be amended by omitting all words after "Renewals" and by substituting:—

"except where the circumstances justify the omission of such allowance.

"Each Company not making such allowance to submit with their claim full particulars of the reason therefor in order that the Government Accountant may be satisfied that the allowance should not be made having regard to all the circumstances."

8. With reference to Clause 9 of the Instructions appended to Circular Letter No. 1650: For the purpose of this Clause, rolling stock on loan to the War Department for service overseas shall not be regarded as rolling stock in service, and an allowance on account of any reduction in numbers, caused by vehicles on loan to the War Office, shall be made as a special addition to the formula, in respect of *repairs*, based on the unit cost of repairs in 1913. The figures so ascertained to be increased by a percentage to bring up to rates of wages and prices of materials of the control period under review.

Any other variations in numbers shall be dealt with in accordance with Clauses 7 and 9 of the Instructions.

9. With reference to Clause 10 of the Instructions appended to Circular Letter No. 1650, in view of the fact that Statistical Returns IA and II are included in the published accounts for the year 1919, it will be necessary for Companies who have sent permanent way materials to France, and/or loaned rolling stock to the War Department for service overseas, to attach to their respective claims a statement showing the length of track which has been taken up and sent to France and the numbers of rolling stock loaned to the Government for service overseas.

10. From the total expenditure of the year 1919 a deduction may be made of the authorised allowance (as per Circular Letter No. S. 110)* for the period to 31st December, 1919, ascertained in respect of both maintenance and depreciation, such allowance to be increased by a percentage to bring up to the 1919 rates of wages and prices of materials. In other words, a similar procedure is to be followed to that adopted in connection with the allowance for renewals and repairs of additional permanent way and rolling stock.

11. Appended hereto is the revised formula for each abstract, showing the additional items authorised by this Instruction.

Please acknowledge receipt.

Yours faithfully,

(Signed) GEO. H. WHEELER,

Secretary.

The General Manager,
 _____ Railway.

* See Document No. 86.

**FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF WAY
AND WORKS.**

ABSTRACT "A."		£	£
Total Expenditure under all headings in Abstract "A," exclusive of transfers to (or from) Depreciation Funds or Suspense Accounts—Year	... ..		.....
<i>Add—</i>			
Credits for supervision charged to the Government	... ..	.....
For reduction in Mileage of Line open for Traffic...	... ..	.....
		-----
<i>Less—</i>			
Expenditure on work for Government charged to Revenue— <i>e.g.</i> , small works under £10	.....	
For New Lines opened, arrived at in the prescribed manner	... ..	.....
For Renewals and Depreciation of additional works or equipment other than Permanent Way	... ..	.....
Additional Expenditure for Abnormal Wear and Tear	... ..	.....
Special expenditure for lifting and restoration of Permanent Way due to shortage of materials	... ..	.....
Expenditure incurred in the Provision of Temporary Accommodation for Female Staff, arrived at in the prescribed manner (<i>see</i> Clause 6 of Circular Letter No. S. 111)	... ..	.....
Expenditure incurred during 1919 in respect of holidays granted with pay, in excess of those (if any) granted with pay in the year 1913 (<i>see</i> Clause 3 of Circular Letter No. S. 111)	... ..	.....
Bonus payments made to Supervisory Staff under Railway Executive Committee Circular Letter No. 1901 (<i>see</i> Clause 4 of Circular Letter No. S. 111)...	... ..	.....
		-----
		
<i>Less</i> per cent. (arrived at in the prescribed manner) to reduce to 1913 cost	... ..		.....
Expenditure in year adjusted for comparison with the year 1913	... ..		.....
Total of Abstract "A," year 1913, as per printed Accounts	... ..		.....
Arrears of work, year , subject to addition of 15 per cent.	... ..		.....
<i>Add</i> 15 per cent.	... ..		.....
Amount chargeable for Arrears of Work, year	... ..		.....
<i>Deduct or add—</i>			
Amount transferred to credit or debit of Depreciation Funds or Suspense Accounts, year	... ..		.....
Net amount to be claimed for Arrears of Work, Abstract "A," year	... ..		£

FORMULA FOR ARRIVING AT ARREARS OF MAINTENANCE AND RENEWAL OF ROLLING STOCK.

ABSTRACT " B " (1), (2) and (3).		£	£
Total Expenditure under all headings in Abstract , exclusive of transfer to (or from) Depreciation Funds or Suspense Accounts, and of the Engine Power item in " B " (1) year	...		.....
<i>Add—</i>			
Credits for Supervision and Profit on War Manufactures...	...	.....
For Rolling Stock on loan to the War Department for service overseas (<i>see</i> Clause 8 of Circular Letter No. S. 111) ...	...	.....
For reduction in Rolling Stock in Service, arrived at in the prescribed manner...	...	.....	.....
		
<i>Less—</i>			
Expenditure on work for Government charged to Revenue— <i>e.g.</i> , small works under £10; alterations to Rolling Stock for the Military Authorities ...	...	.....
Expenditure on repair of Rolling Stock loaned by H.M. Government ...	...	.....
For additions to Rolling Stock in service arrived at in the prescribed manner...	...	.....
For renewals and depreciation of additional equipment other than Rolling Stock ...	...	.....
Additional Expenditure for Abnormal Wear and Tear ...	...	.....
Additional Cost of Rolling Stock purchased from, or repaired by, outside firms ...	...	.....
Expenditure incurred during 1919 in respect of holidays granted with pay, in excess of those (if any) granted in the year 1913 (<i>see</i> Clause 3 of Circular Letter No. S. 111) ...	...	.....
Bonus payments made to Supervisory Staff under Railway Executive Committee Circular Letter No. 1901 (<i>see</i> Clause 4 of Circular Letter No. S. 111) ...	...	.....	.....
		
<i>Less</i> per cent. (arrived at in the prescribed manner) to reduce to 1913 cost ...	...		.....
Expenditure in year adjusted for comparison with the year 1913 ...	...		£
The above process to be applied in the case of each of the three sections of Abstract " B " separately. The resulting figures to be totalled thus:—			
	" B " (1)	.....
	" B " (2)	.....
	" B " (3)	.....	.....
Total of Abstract " B " (1), (2) and (3), year 1913, as per printed Accounts, exclusive of the Engine Power item in the case of " B " (1):—			
	" B " (1)	.....
	" B " (2)	.....
	" B " (3)	.....	.....
Arrears of Work, year , subject to addition of 15 per cent. ...	...		.....
<i>Add</i> 15 per cent. ...	...		.....
Amount chargeable for Arrears of Work, year ...	...		.....
<i>Deduct or add—</i>			
Amount transferred to credit or debit of Depreciation Funds or Suspense Accounts, " B " (1), (2) and (3), combined, year ...	...		.....
Net amount to be claimed for Arrears of Work, Abstract " B " (1), (2) and (3), year ...	...		£

IX.—ALLOWANCES IN RESPECT OF MAINTENANCE AND DEPRECIATION OF ADDITIONAL WORKS AND PLANT COMPRISED IN ABSTRACTS "A" AND "B" (OTHER THAN PERMANENT WAY AND ROLLING STOCK).

Document Number.	PAGE
(85) Letter of 9th September, 1920, from Ministry of Transport to Railway Accountants' Committee, approving formally a draft Circular letter to the Railway Companies	106
(86) Circular Letter No. S. 110 of 13th September from the Standing Committee of General Managers to the Railway Companies, informing them of the Government's approval, and containing Instructions for the preparation of claims	106

MINISTRY OF TRANSPORT CORRESPONDENCE.

(85)

MINISTRY OF TRANSPORT,
FINANCIAL AND STATISTICAL DEPT.
9th September, 1920.

F. 1182 and 1463.

Sir,

ALLOWANCES IN RESPECT OF MAINTENANCE AND DEPRECIATION OF ADDITIONAL WORKS AND PLANT COMPRISED IN ABSTRACTS "A" AND "B" (OTHER THAN PERMANENT WAY AND ROLLING STOCK).

I am directed by the Minister of Transport to refer to your letter* (184) of the 18th ultimo, and to say that Sir Eric Geddes approves of the draft Circular letter and agrees to it being issued to the Railway Companies in the form submitted with your letter.

The Minister will be glad to be furnished with 12 copies of the Instruction so soon as it is circulated to the Railway Companies.

I am, Sir,

Your obedient Servant,
(Signed) C. HURCOMB.

The Chairman,
Railway Accountants' Committee,
16, Great George Street, S.W.

The letter of 18th August forwarded a copy of the draft Circular letter for approval. The letter, as printed in Document No. 86, was approved by the Treasury.

(86)

SPECIAL COMMITTEE OF STANDING COMMITTEE OF GENERAL MANAGERS,
35, PARLIAMENT STREET, WESTMINSTER, S.W.
13th September, 1920.

Circular Letter No. S. 110.

Dear Sir,

ALLOWANCES IN RESPECT OF MAINTENANCE AND DEPRECIATION OF ADDITIONAL WORKS AND PLANT COMPRISED IN ABSTRACTS "A" AND "B" (OTHER THAN PERMANENT WAY AND ROLLING STOCK).

I have the pleasure to inform you that the Government have now agreed that as from the 5th August, 1914, allowances as shown on the attached Schedule may be claimed in respect of Maintenance and Depreciation of the Works, &c., described thereon. The amounts claimed to be arrived at as follows:—

- (a) Allowances to be calculated separately:—
- (1) For each Abstract;
 - (2) For Maintenance and Depreciation respectively; and
 - (3) For each of the accounting periods.
- (b) In respect of works, &c., falling under the 4 per cent. interest on capital arrangement, the allowances to be for the periods corresponding to the periods on which interest has been or is allowed. In respect of works, &c., falling under the 5 per cent. arrangement, the allowance to be as from the date the works, &c., were brought into use, as certified by the responsible officer concerned, in the same manner as if the 4 per cent. arrangement applied.
- (c) The expenditure on which the allowances are based shall be the net amounts approved for such works in the claims for interest on capital reduced by the amounts included therein in respect of land, law charges, or other expenditure not in respect of structures or plant.
- (d) Credit to be given for all amounts written out of capital in respect of works and plant displaced since 31st December, 1912, and not deducted from expenditure embraced in paragraph (c), provided such works and plant were subject to

maintenance, and in use, during the year 1913. The amount in respect of such credits to be calculated in the same manner as in the case of the allowances, the date of displacement being certified as in the case of new works.

- (e) The amounts ascertained in accordance with the foregoing paragraphs for the period from 5th August, 1914, are to be reduced by the total amounts (if any) which may have already been allowed a Company in respect of such works or plant. A Company which has already been allowed to make provision through the respective Government Accounts on account of the maintenance and/or depreciation of additional works and plant, and whose provision is in excess of the rates now agreed, shall not, however, be prejudiced, but may still continue to make such provisions.
- (f) The allowance ascertained in accordance with the foregoing paragraphs in respect of depreciation is to be claimed through the account of the net receipts. A supplementary claim to be rendered as soon as possible to the Railway Accountants' Committee, 16, Great George Street, Westminster, S.W., for the period to 31st December, 1919, the amount of such claim to be dealt with as a "Transfer to Depreciation Funds or Suspense Accounts" in the 1919 claims for arrears of maintenance.

Will you kindly note and instruct your Accountant accordingly.

Yours faithfully,

(Signed) GEO. H. WHEELER,

Secretary.

The General Manager,
 _____ Railway.

MAINTENANCE AND DEPRECIATION OF NEW WORKS BROUGHT INTO USE DURING
 GOVERNMENT CONTROL.

Schedule of Percentage Rates to be allowed.

	Depreciation.	Maintenance.	Total.
	Per cent.	Per cent.	Per cent.
Abstract "A"—			
Earthworks	Nil	1	1
Bridges, including viaducts and culverts	1½	1¼	2¾
Tunnels	½	¾	1¼
Retaining walls	1	¾	1¾
Roads	—	10	10
Turntables	3	3	6
Fences	—	2½	2½
Stations, depots and offices	1½	5	6½
Stations, involving expenditure of £100,000 or more	1¼	4	5½
Engine sheds	2½	7½	10
Carriage sheds	2	6	8
Locomotive workshops	2	6	8
Carriage workshops	2	5	7
Wagon workshops	2	5	7
Other buildings	1½	5	6½
Electric track equipment—			
Third rail system	6	4	10
Overhead system	6	4	10
ABSTRACT "B"—			
Locomotive plant and machinery	3	12½	15½
Carriage plant and machinery	3	12½	15½
Wagon plant and machinery	3	12½	15½

**X.—INCREASE TO 5 PER CENT. IN THE RATE OF INTEREST ALLOWED ON APPROVED
FRESH CAPITAL EXPENDITURE.**

Document Number.	PAGE
(87) Letter of 7th May, 1919, from Sir Herbert Walker to Sir Auckland Geddes, suggesting that new Railway works should be financed in the same way as works constructed by Railway Companies for the Government during the war... ..	109
(88) Letter of 14th May, 1919, from the Board of Trade to the Treasury, suggesting that the case might be substantially met if the interest allowed on fresh capital expenditure of the Railway Companies were increased to say 5½ or 6 per cent., and an undertaking were given to the Companies that, in the event of their undertakings being acquired by the Government, the consideration to be given in respect of such capital expenditure should be the actual cost incurred together with an addition for interest on the sum expended up to the time when the works were brought into use	110
(89) Letter of 23rd May, 1919, from the Treasury to the Board of Trade, stating that they were prepared to agree to an increase in the rate of interest to 5 per cent. from the date when the capital expenditure was incurred, and that an assurance might be given to the Companies that in the event of Nationalisation, the price to be paid by the Government shall not be affected one way or another by the arrangement	110
(90) Letter of 30th May, 1919, from the Board of Trade to the Railway Executive Committee, forwarding a copy of the Treasury letter of 23rd May, 1919, and explaining what the Board understood the arrangements to mean. It was indicated in this letter that the arrangements were to apply only to approved capital expenditure	111
(91) Circular letter No. 1930, of 15th August, 1919, issued by the Railway Executive Committee to the Railway Companies, on the subject	111
(92) Extract from letter of 12th February, 1920, from the Ministry of Transport, informing the Railway Companies' Association that it has been decided that as regards works in hand before May, 1919, or commenced between that date and 31st January, 1920, the Railway Companies should have the option of 4 per cent. interest on capital expended without the Minister's approval, or 5 per cent. on capital expended with the Minister's approval. But for works commenced on or after 1st February, 1920, the right to claim 4 per cent. without the Minister's approval would lapse	112
(93) Circular letter No. S. 104 of 12th August, 1920, from the Standing Committee of General Managers to the Railway Companies, forwarding Regulations for the compilation of claims for 5 per cent. interest on capital expenditure. (These Regulations were approved by the Ministry of Transport on the 6th August, 1920)	113

(87)

F. 195.
P. 2224/8 WR.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

7th May, 1919.

Dear Sir Auckland Geddes,

1. With reference to my conversation with you this afternoon in regard to the capital necessary for carrying out Railway schemes of new construction ;

2. As I explained to you, most of the large Railway Companies have schemes in hand which necessitate the spending of large sums of money on capital account, but they do not feel in a position to authorise this expenditure until they know exactly what their position is likely to be in regard to the future of their undertakings.

3. These new schemes may be roughly classified under three headings :—

- (a) New sidings and railways or alterations asked for by firms and others in order to enable them to increase their premises and output.
- (b) Schemes of alteration necessary to enable economies in working to be effected by the Railway Companies.
- (c) Alterations, widenings, rebuilding of stations, provision of Rolling Stock, &c., necessary to enable the Railway Companies to adequately deal with the normal increase in traffic.

4. At the present time the most urgent cases are those referred to under category (1) above, and I would call your attention to the three following :—

NOTE.—Here followed details of certain proposed new works.

5. These are typical cases of Works which appear to be urgently required, but the Railway Companies cannot be expected to find the necessary capital under existing conditions. Their objections are on financial grounds, and include—

- (a) The inadequate amount allowed for interest on capital works brought into use—*i.e.*, 4 per cent.
- (b) The fact that no interest is allowed until the Works are brought into use.
- (c) The heavy increased cost for carrying on the work at existing rates of wages and prices of material.
- (d) The uncertainty as to how the Railway Companies will be recouped for such expenditure in the case of the Government deciding to take over the Railways.

6. We took the matter up with the Minister Designate of Ways and Communications, and have received a letter from Sir Francis Dunnell to the effect that Sir Eric Geddes feels that until the new Ministry is formed he is not in a position to take action, and suggests that we deal with it through the Board of Trade.

7. I enclose you a copy of a letter we addressed to the President of the Board of Trade (Board of Trade *ref.* R. 1563) on the 10th April, 1918,* which resulted in an agreement being arrived at for the financing of new works carried out as a war measure at the request of the Board of Trade or of the Railway Executive Committee.

8. We would suggest that if possible a new arrangement be come to with the Treasury under which any new works which it is necessary to put in hand shall be financed on the basis laid down in Clause 7, Sub-sections (b), (c), (d), and (e) and Clause 8 of our letter of the 10th April, 1918, above referred to.

9. We are preparing for Sir Eric Geddes a list of new works which the Railway Companies consider should be proceeded with forthwith. The cost of these works runs into several millions, and it will be necessary, of course, to come to some decision as to the priority under which the works shall be put in hand. This, however, we can arrange.

Yours faithfully,

(Signed) H. A. WALKER,

Acting Chairman.

Sir Auckland Geddes,
Board of Trade.

* See Document No. 94.

R. 2159.

F. 195.

BOARD OF TRADE.

14th May, 1919.

Sir,

I am directed by the Board of Trade to state, for the information of the Lords Commissioners of His Majesty's Treasury, that Sir Auckland Geddes has had under discussion with the Acting Chairman of the Railway Executive Committee the financial arrangements in force between the Government and the Railway Companies in regard to the payments made to the Companies in respect of additional capital expenditure, and a copy of a letter, with enclosure, which has been received from the Committee is enclosed herewith.*

It has been pointed out by the Railway Executive Committee that at the present time many of the Railway Companies have under consideration urgent schemes of extensions or improvements which are desirable in the interests of increased production or to secure economy in working, and that capital expenditure on additional equipment, such as rolling stock, is also required in order to meet the normal increase in traffic. At the present time, however, the Railway Companies are deterred from undertaking such schemes by reason of the existing financial arrangements. The principal considerations put forward on behalf of the Companies in this respect are—

- (a) The inadequate amount allowed for interest on capital works brought into use—
i.e., 4 per cent.
- (b) The fact that no interest is allowed until the works are brought into use.
- (c) The heavy increased cost of carrying out the work at existing rates of wages and prices of material.
- (d) The uncertainty as to how the Railway Companies will be recouped for such expenditure in the case of the Government deciding to take over the Railways.

The matter is also referred to in letters, copies of which are enclosed,† which have been received from the Irish Railway Executive Committee in the matter.

It is suggested on behalf of the Companies that fresh approved capital expenditure in such circumstances should be provided by the Government on the lines which have been laid down in the case of works constructed by the Companies for the Government.

The Board, however, consider that the case might be substantially met if the interest on capital expenditure when provided by the Companies, on new works, or additional rolling stock, brought into use were increased to, say, 5½ or 6 per cent., and an undertaking were given to the Companies that in the event of their undertakings being acquired by the Government the consideration to be given in respect of such capital expenditure should be the actual cost which has been incurred, together with an addition for interest on the sum expended up to the time when the works were brought into use.

The Board would be glad to learn that the Lords Commissioners can see their way to agree to arrangements being made on this basis.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. F. MARWOOD.

The Secretary,
Treasury.

* See Document No. 87.

† Not printed.

F. 195.

21626/19.

TREASURY CHAMBERS,

23rd May, 1919.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury your letter of the 14th instant (R. 2159) and the accompanying copy of a letter from the Railway Executive Committee with regard to the financial arrangements in force between the Government and Railway Companies as to payments to the Companies in respect of additional capital expenditure.

In reply, I am to request you to inform the Board of Trade that in view of the considerable funds possessed by the Railway Companies My Lords see no reason for providing

for the expenditure on new works and rolling stock by advances from Government Funds. They recognise that the interest obtained on present investments may in many cases be in excess of 4 per cent., and They are accordingly prepared to concur in the rate of interest allowed on capital expenditure on new works or additional rolling stock after the 1st instant being raised to 5 per cent., such interest to begin to accrue as from the date when the capital expenditure is incurred.

With regard to the undertaking which it is proposed to give to the Companies as to the allowance to be made in respect of such capital expenditure in the event of the Government deciding to purchase the railways, it is not clear to Their Lordships in what way precisely the Railway Companies will be affected by a transfer of their assets from investments to rolling stock or new works. They are, however, prepared to concur in an assurance being given that in the contingency contemplated the price to be paid for the undertakings shall not be affected one way or the other by the arrangements now agreed to.

* * * * *

I am, Sir,
Your obedient Servant,
(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

R. 2159.
F. 195.

(90)

BOARD OF TRADE.
30th May, 1919.

Sir,

With reference to the letters from Sir Herbert Walker of 31st March* and 7th May respectively to Sir Eric Geddes and Sir Auckland Geddes on the subject of the provision of additional capital expenditure required for Railway purposes, I am directed by the Board of Trade to state that they have been in communication with the Treasury on the subject, and that they are now prepared to agree to arrangements being made as indicated in the letter from the Treasury of the 23rd May, of which a copy is enclosed herewith.

The Board understand that the proposed arrangements are—

- (1) That in place of the present arrangements between the Railway Companies and the Government with regard to the rate of interest to be allowed on new capital expenditure, interest at the rate of 5 per cent. per annum from the date on which the expenditure is incurred may be allowed in respect of approved capital expenditure.
- (2) That an assurance may be given to the Companies that in the event of their undertakings being acquired by the Government the Companies shall neither be financially prejudiced nor financially advantaged by reason of having incurred capital expenditure under the present arrangements.

I am, Sir,
Your obedient Servant,
(Signed) W. F. MARWOOD.

The Secretary,
Railway Executive Committee,
35, Parliament Street, S.W.

(Treasury letter of 23rd May, 1919, enclosed, Document No. 89.)

The substance of this letter is contained in Document No. 87.

(91)

F. 195.
(Circular Letter No. 1930.)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.
15th August, 1919.

Dear Sir,

INTEREST ON CAPITAL EXPENDITURE.

I have to inform you that the Railway Executive Committee has recently been in communication with the Treasury and the Board of Trade with reference to the carrying

out of new works involving capital expenditure. You are aware that the present arrangement with the Government is, broadly, that on expenditure on works brought into use since the end of the year 1912 the Government pay interest at the rate of 4 per cent. per annum as from the date the work was brought into use. The Government have now agreed that as regards future capital expenditure—*i.e.*, sums expended upon works or rolling stock since 1st May last, and chargeable to capital—interest at the rate of 5 per cent. per annum shall be allowed as from the date the expenditure is incurred, provided the expenditure itself is approved by the Government.

2. The Executive Committee are in communication with the Government as to the procedure under which the necessary approval of the Government is to be obtained, till such procedure has been agreed, particulars of capital expenditure proposed by any Company can be forwarded to this Committee, who will endeavour to obtain the necessary approval.

3. The new rate of interest will be applicable to further capital expenditure on works at present in hand and on works commenced before the war and discontinued and now proceeded with, provided in each case the Government approval is obtained. It may therefore happen that in some cases interest will be payable by the Government at two different rates and on two different bases in respect of one work—that is to say, interest may accrue in respect of part of the expenditure at the rate of 4 per cent. from the date the work is brought into use, and in respect of the other part at the rate of 5 per cent. from the date when the money is expended.

4. The Executive Committee are in negotiation with the Government as to the allowance to be made to the Companies in respect of new capital expenditure in the event of the Government deciding hereafter to take over the Railways. As to this you will be advised later on, but it is understood that the Government are prepared to give an assurance that in that event the Companies are neither to be financially prejudiced nor financially advantaged by reason of having incurred capital expenditure under the arrangement outlined in this Circular.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

The General Manager,
_____ Railway.

MINISTRY OF TRANSPORT CORRESPONDENCE.

(92)

(Extract.)
F/205.

MINISTRY OF TRANSPORT,
FINANCIAL AND STATISTICAL DEPT.,
12th February, 1920.

Sir,

INTEREST ON CAPITAL EXPENDITURE.

* * * * *

In connection with the question of the rates of interest to be allowed on capital expenditure, I am to state that as he [the Minister] is informed that some misapprehension has arisen as to the interpretation of the arrangements described in the Circular Letter No. 1930,* issued by the Railway Executive Committee on the 15th August, 1919, it has been decided† to adopt the following definition:—

As regards works in hand before May, 1919, and also as regards works commenced between that date and the 31st January, 1920, the Railway Companies may have the option of 4 per cent. interest on capital expended without the Minister's approval, or 5 per cent. interest on capital expended with the Minister's approval.

As regards works commenced on and after the 1st February, 1920, the right to claim 4 per cent. without the Minister's approval will lapse.

Any regulations issued in connection with the work of the 'Accountants' Sub-

* Printed as Document No. 91.

† The arrangement was approved by the Treasury on 6th February, 1920.

Committee in regard to this or to any other point arising out of the Railway Agreement, should first be approved by the Ministry.

* * * * *

I am, Sir,

Your obedient Servant,

(Signed) J. GEORGE BEHARRELL.

The Secretary,
Railway Companies' Association,
8, Victoria Street, S.W.

(93)

SPECIAL COMMITTEE OF STANDING COMMITTEE OF GENERAL MANAGERS,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

12th August, 1920.

(Circular Letter No. S. 104.)

Dear Sir,

INTEREST ON CAPITAL EXPENDITURE.

With reference to Circular Letters Nos. 1930 and 2001 : I have the pleasure to enclose herewith the Regulations* governing the compilation of claims for 5 per cent. interest on capital expenditure under the arrangement referred to in Circular Letter No. 1930. The claims should be made up to 31st December, 1919, and afterwards annually as in the case of those rendered under the original 4 per cent. arrangement (Circular Letter No. 729),† and a reference to the Government's approval must be given in each case.

Separate claims should be rendered in respect of the interest chargeable against the Government at 5 per cent. and 4 per cent. respectively. It should be noted that the cost of land acquired prior to the 1st May, 1919, and subsequently used for the purposes of an "approved" work, will be dealt with under the 4 per cent. arrangement, and only carry interest as from the date the work is brought into use.

Yours faithfully,

(Signed) GEO. H. WHEELER,
Secretary.

The General Manager,
——— Railway.

* The Regulations referred to in this letter were approved by the Ministry of Transport and the Treasury, and are set out below.

† Circular Letter No. 7-9 covered the issue of the Pink Book. Document No. 71.

(Enclosure in General Managers Committee's letter of 12th August, 1920.)

INTEREST ON CAPITAL EXPENDITURE.

REGULATIONS IN REGARD TO THE COMPILATION OF CLAIMS FOR INTEREST AT 5 PER CENT.
ON CAPITAL EXPENDITURE APPROVED BY H.M. GOVERNMENT.

1. *Definition of Capital Expenditure.*

The capital expenditure to which the 5 per cent. interest arrangement set out in Circular Letter No. 1930 applies must be—

- (a) Approved by H.M. Government.
- (b) Incurred on or after 1st May, 1919.
- (c) Charged to capital and properly so charged.
- (d) Reduced by the cost of any works replaced.

2. *Land.*

In the event of H.M. Government approving expenditure on the purchase of land or property not immediately required for works, any rents receivable in respect of the period covered by the claim for the occupation of such land or property must be credited to the interest column in the claim.

3. Calculation of Interest.

Interest to be calculated on the respective items according to the following principles:—

(a) Wages paid by the Company and materials issued from stock.

On and from the mean date of the monthly accounting periods (calendar month or 28 days, according to the practice of the Company) for which the wages and materials are charged. The mean date in the case of the 28-day periods to be the fifteenth day of such period, and in the case of calendar months to be as shown in the following table:—

January 16th	July 17th
February 15th	August 16th
March 17th	September 16th
April 16th	October 17th
May 16th	November 16th
June 16th	December 16th

(b) Payments to contractors and other parties (including materials specially purchased for a particular work).

On and from the date of issue of the cheque.

(c) Land.

On and from the date from which interest on the purchase money is payable, or if no such interest is payable, on and from the date of issue of the cheque.

(d) Deductions from expenditure.

- (1) *Replaced Works or other Revenue Charges, and Contributions from Parties other than controlled Railway Companies.*—The estimated amount by which the total expenditure has to be reduced in this regard to be expressed as a percentage of the estimated total cost of the work, excluding land and costs. All items of expenditure incurred on construction to be reduced by such percentage, but such reductions are not to exceed in the aggregate the total estimated credit.

(Specimen formula appended hereto.)

- (2) *Returned Materials.*—Credit to be given on and from the mean date of the calendar month or 28-day period in which materials are credited as returned, or available for return, to stock, which ever is the earlier.

- (3) *Contributions towards cost of Works by other controlled Railway Companies.*—Credit to be given on and from the date of receipt of the money.

EXAMPLE OF THE APPLICATION OF CLAUSE 3 (d) (1) OF THE REGULATIONS IN REGARD TO THE COMPILATION OF CLAIMS FOR 5 PER CENT. ON APPROVED CAPITAL EXPENDITURE.

	£	Per cent.
Estimated total cost of new work (excluding land and costs)	10,000	100
Less—		
Proportion chargeable to revenue	£ 1,000	
Contribution from a party other than a controlled Railway Company	1,000	
Replaced works	4,000	60
[Net debit to capital	£4,000	40 per cent.
		Expenditure ranking for interest.
	Expenditure incurred.	Less 60 per cent.
	£	£
January, 1920	6,000	3,600
March, 1920	2,000	1,200
June, 1920	2,000	1,200
	£10,000	£6,000
		£4,000

**XI.—ARRANGEMENTS IN REGARD TO THE PAYMENT FOR RAILWAY WORKS
CONSTRUCTED UNDER AUTHORITY OF THE BOARD OF TRADE.**

(N.B.—Previous to the general arrangements referred to in this section, special agreements were made with particular Companies by the War Office and other Government Departments.)

Document Number.	PAGE
(94) Letter of 10th April, 1918, from the Railway Executive Committee to the Board of Trade, suggesting a procedure that might be adopted in connection with the payment, etc., for new works carried out by Railway Companies at the request of the Board of Trade ...	116
(95) Letter of 3rd May, 1918, from the Board of Trade to the Treasury, asking for their concurrence (subject to a slight qualification) in the arrangements suggested by the Railway Executive Committee	11
(96) Extract from letter of 31st May, 1918, from the Treasury to the Board of Trade, concurring generally in the proposed arrangements	117
(97) Letter of 13th June, 1918, from the Board of Trade to the Railway Executive Committee, informing them of the arrangements made with the Treasury	118
(98) Letter of 13th June, 1918, from the Board of Trade to the War Office, informing them of the proposed arrangements and asking for their formal concurrence	118
(99) Circular letter No. 1423 of 25th June, 1918, issued by the Railway Executive Committee to the Railway Companies, notifying them of the arrangements	119
(100) Extract from letter of 28th June, 1918, from the War Office to the Board of Trade, confirming the provisional arrangements	120

(94)

P. 1981.
P.R. 2484.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

10th April, 1918.

Dear Sir,

PAYMENT FOR WORKS CARRIED OUT BY RAILWAY COMPANIES AT THE REQUEST OF THE BOARD OF TRADE.

1. At the interview you were good enough to accord us on the 28th ultimo we discussed, amongst other things, the question of the method of payment for new works carried out by the Railway Companies at the request of the Board of Trade.

2. Ever since the commencement of the war the Railway Companies have been constructing works for the various Government Departments under an arrangement by which the orders for all such works are, as a general practice, co-ordinated through the War Office. This was done because it was found at an earlier stage of the war that the requirements of the various departments—*i.e.*, War Office, Admiralty, Ministry of Munitions, and others, had a tendency to overlap.

3. The arrangement of co-ordination through the War Office has worked very well, and includes, amongst other things, an Agreement under which the Government will pay for all such new works on the understanding that at the termination of the war, or as soon thereafter as possible, the Companies should decide whether or not they were prepared to take over, on agreed terms, such works, or the materials forming works not required to be retained, or any part of them. In the case of those works and materials which the Railway Companies decide not to take over, any material recovered to remain the property of the Government, who would bear the cost of recovery and making good.

4. Under these arrangements the Government pay 50 per cent. of the estimated cost at the time the work is ordered and the balance as soon as the actual cost of the work has been ascertained.

5. It would appear that the time has now arrived when the Railway Companies will have to carry out a considerable amount of work on behalf of departments under the control of the Board of Trade, particularly the Coal Controller and Timber Controller, and it is necessary that the procedure and method of payment should be agreed.

6. We think that arrangements similar to those recorded in Paragraphs 3 and 4 of this letter will meet the case. We are of opinion, however, that it is not necessary for these new works to be co-ordinated through the War Office, and that the arrangements should be left entirely in the hands of the Board of Trade, with the Railway Companies immediately concerned and the Railway Executive Committee.

7. We suggest, therefore, that the following procedure and method of payment should be adopted :—

- (a) In the case of new sidings asked for by the Coal Controller or the Timber Controller, arrangements for the preparation of the necessary plans and estimates to be made direct with the Company concerned.
- (b) In the case of additional accommodation required by a Railway Company for properly dealing with large increases in traffic, the Railway Company concerned to report to the Railway Executive Committee with the necessary plans and estimates. If the Railway Executive Committee agree that the work is necessary, they to forward the plans and estimates to the Board of Trade with their recommendation.
- (c) If the Board of Trade agree with the works under (a) or (b) being proceeded with, they to give the necessary instructions to the Railway Executive Committee, who will advise the Company or Companies concerned.
- (d) The Board of Trade to arrange, when the order is given for the work, for an amount equal to 50 per cent. of the estimated cost of the work to be credited to the Railway Executive Committee for payment to the Company or Companies carrying out the work.
- (e) On completion of the work the Company or Companies concerned to send an account to the Railway Executive Committee for submission to the Board of Trade, who will arrange for the amount due to be credited to the Railway Executive Committee.

8. If, after the termination of the War, any Railway Company decides for its own purposes to take over any works, or any part of any works, carried out during the period of Government Control under arrangements or by the orders of a Government department, they may do so on terms to be agreed. Any works carried out for Government departments, or by arrangement with the Government, during the period of control, not required to be retained, to be removed and the Government credited with the value of the materials recovered, less the cost of recovery and making good.

In the case of sidings and works that may be required to be retained permanently by, or on behalf of, a Government Department, after the control, agreements in regard thereto and the method of working to be entered into between the Government Departments and the Railways Companies affected.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

The President,
Board of Trade.

(95)

R. 1563.
P.R. 2484.

BOARD OF TRADE.

3rd May, 1918.

Sir,

I am directed by the Board of Trade to transmit herewith, for the information of the Lords Commissioners of His Majesty's Treasury, a copy of a letter which has been received in the Department from the Railway Executive Committee on the subject of the procedure to be adopted in connection with the payment for works carried out by the Railway Companies at the request of the Board of Trade, and I am to say that, if Their Lordships concur, the Board propose to give effect to the general arrangements suggested by the Committee subject to the qualification that the Board are disposed to arrange with the War Office, that, except in cases of urgency, the formal orders for works required should be given by that Department to the Railway Companies concerned instead of by the Board of Trade to the Railway Executive Committee.

I am to add that the Board will communicate further with Their Lordships in regard to the expenditure required for the construction of the specific works required, but that meanwhile they would be glad to learn that no objection is seen to the adoption of the general arrangements suggested.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury.

(Railway Executive Committee letter of 10th April, 1918, enclosed, Document No. 94.)

(96)

17843/18.
P.R. 2484.

TREASURY CHAMBERS.

31st May, 1918.

Sir,

The Lords Commissioners of His Majesty's Treasury have had before them Mr. Moggridge's letter of the 3rd instant and the enclosed copy of a letter from the Railway Executive Committee on the subject of the procedure to be adopted in connection with the payment for works carried out by the Railway Companies at the request of the Board of Trade.

In reply I am to state that, while My Lords concur generally in the arrangements suggested in Paragraph 7 of the Committee's letter, They agree with your Board that co-ordination should continue to be effected through the branch of the War Office dealing with this matter, if the Army Council are willing to extend its control to these new cases,

(B 16959)

H 3

and that except in cases of urgency the formal orders for works required should be given by the War Office to the Railway Companies concerned instead of by the Board of Trade to the Railway Executive Committee. Their Lordships authorise the payment of advances equal to 50 per cent. of the estimated cost of the work in cases similar to those in which advances of this kind have hitherto been made by the War Office.

With regard to the last paragraph of the Committee's letter, I am to say that the question of the settlement in regard to special works of this kind after the war is at present under Their Lordship's consideration, and They will cause a further letter to be addressed to the Board on this subject in due course.

* * * * *

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(97)

R. 1563.
P.R. 2484.

BOARD OF TRADE.

13th June, 1918.

Sir,

With reference to your letter of the 10th April on the subject of the payment for works carried out by Railway Companies at the request of the Board of Trade, I am directed by the Board of Trade to transmit herewith, for the information of the Railway Executive Committee, a copy of a letter which has been received from the Treasury on the subject.

The Board propose accordingly to arrange with the War Office that formal orders for the outstanding works which the Railway Companies have recently been asked to construct for this Department should be issued by the War Office. Meanwhile no delay should be permitted to take place in the completion of such works, especially those which are being constructed in accordance with the recommendations of the Traffic Diversion Committee.

Accounts in the prescribed form should be rendered to the War Office in the ordinary way for transmission to this Department for payment.

I am, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Railway Executive Committee,
35, Parliament Street, S.W.

(Treasury letter of 31st May, 1918, enclosed, Document No. 96.)

(98)

R. 1563.
P.R. 2484.

BOARD OF TRADE.

13th June, 1918.

Sir,

I am directed by the Board of Trade to transmit herewith, for the information of the Army Council, a copy of a letter* of the 10th April received from the Railway Executive Committee on the subject of the payment for works carried out by Railway Companies at the request of this Department. I am also to enclose a copy of a letter† of the 31st May from the Treasury on the subject, from which it will be seen that the Treasury concur in the proposal made by this Department, as a result of informal discussion of the subject with the Department of the Director of Movements, to the effect that the orders for such works should in the ordinary course be given by the War Office instead of by this Department.

* Document No. 94.

† Document No. 96.

The Board would be glad to learn that the Army Council see no objection to this proposal, and that they are prepared to confirm the provisional arrangements which have been made for giving effect to it.

In this event I am to ask that formal orders for the construction of the works named in the enclosed Schedule† might be issued by the Army Council. The Companies concerned have already been asked by this Department to construct the works in question.

I am, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
War Office.

† Not printed.

(99)

P.R. 2484.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

25th June, 1918.

(Circular Letter No. 1423.)

Dear Sir,

PAYMENT FOR WORKS CARRIED OUT BY RAILWAY COMPANIES AT THE REQUEST OF THE BOARD OF TRADE.

We have been in communication with the Board of Trade in regard to the payment for works carried out by the Railway Companies at the request of the Board of Trade, and have suggested that the following procedure and method of payment should be adopted :—

- (a) In the case of new sidings asked for by the Coal Controller or the Timber Controller, arrangements for the preparation of the necessary plans and estimates to be made direct with the Company concerned.
- (b) In the case of additional accommodation required by a Railway Company for properly dealing with large increases in traffic, the Railway Company concerned to report to the Railway Executive Committee with the necessary plans and estimates. If the Railway Executive Committee agree that the work is necessary, they to forward the plans and estimates to the Board of Trade with their recommendation.
- (c) When the order is given for the work, an amount equal to 50 per cent. of the estimated cost of the work to be credited to the Railway Executive Committee for payment to the Company or Companies carrying out the work.
- (d) On completion of the work the Company or Companies concerned to send an account to the Railway Executive Committee for submission to the War Office, who will arrange for the amount due to be credited to the Railway Executive Committee.

It was further proposed that if, after the termination of the war, any Railway Company decides for its own purposes to take over any works, or any part of any works, carried out during the period of Government control under arrangements or by the orders of a Government Department, they may do so on terms to be agreed. Any works carried out for Government Departments, or by arrangement with the Government, during the period of control not required to be retained, to be removed and the Government credited with the value of the materials recovered, less the cost of recovery and making good. In the case of sidings and works that may be required to be retained permanently by, or on behalf of, a Government Department, after the control, agreements in regard thereto and the method of working to be entered into between the Government Departments and the Railway Companies affected.

I now have to inform you that the Board of Trade and Treasury have agreed to the proposals set out above, but have stipulated that co-ordination shall continue to be effected through the War Office, who in the past have dealt with new works carried out by the Railway Companies for the various Government Departments.

Except, therefore, in cases of urgency the formal orders for works required will be given by the War Office to the Railway Companies concerned, an advice being sent to this Committee at the same time.

The same procedure so far as payment is concerned will be adopted for works carried out on behalf of the Board of Trade as has been adopted in the past with works carried out for the War Office.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

The General Manager,
——— Railway.

(100)

120/Home/629 (S.R. 3.b).
P.R. 2484.

WAR OFFICE,
LONDON, S.W.
28th June, 1918.

Sir,

With reference to your letter (R. 1563) of 13th June, I am commanded by the Army Council to inform you that they agree that works carried out by the Railway Companies on behalf of the Board of Trade should be ordered by the War Office in order to ensure their co-ordination with the requirements of other Government Departments. The Council accordingly confirm the provisional arrangements which have been made for giving effect to this proposal.

They consider, however, that there should be no exceptions whatever to this procedure, and that, should any order of great urgency be placed by the Board direct, it should be at once reported to the War Office in order that formal covering authority may be given to the Railway Company.

* * * * *

I am, Sir,

Your obedient Servant,

(Signed) B. B. CUBITT.

The Assistant Secretary,
Board of Trade.

XII.—ARRANGEMENTS WITH REGARD TO RAILWAY COMPANIES' STEAMERS.

[N.B.—The correspondence between the various Government Departments and the Railway Companies with regard to questions arising under this head was voluminous and intricate, and is therefore not reproduced.]

Document Number.	PAGE
(101) Summary of arrangements agreed between the Government and the Railway Executive Committee 	122

(101)

RAILWAY COMPANIES' STEAMERS.

SUMMARY OF ARRANGEMENTS WHICH HAVE BEEN AGREED BETWEEN THE GOVERNMENT AND THE RAILWAY EXECUTIVE COMMITTEE.

Authority.—Admiralty letter of 9th September 1914, and Executive Committee Minutes Nos. 179 and 262.

1. Vessels regarded as requisitioned under the Act of 1871.

The vessels in the Company's service at the commencement of the war, and any purchased or built in substitution thereof, are regarded as taken up under the Regulation of the Forces Act, 1871, and *not* under the Royal Proclamation of the 4th August, 1914.

Authority.—Admiralty letter of September 9th, 1914, and Executive Committee Minutes Nos. 179 and 262.

2. Compensation payable by Government.

The Agreement as to compensation under the Act of 1871 between the Government and the Railway Companies is regarded as providing for the compensation payable to the Companies in respect of the taking over of their steam vessels except as hereinafter provided.

Authority.—Executive Committee letter, P.625/4.W. of 19th January, 1917, and Executive Committee Minutes Nos. 2372, 2393, 2470, 2579, 2770 and 2795.

3. Insurance of Railway Companies' Steam Vessels employed for other than Government Purposes.

Railway Companies' steam vessels used for other than Government purposes not to be insured against Marine and/or War Risks, including all risks covered by previous insurance—any liability for loss or damage being assumed by the Government so far as the expense of insuring against such liability would otherwise fall to be paid by the Exchequer under the Government Agreement on the same conditions as those agreed upon between the Government and the Railway Companies in regard to requisitioned vessels (*vide* Nos. 5 and 6). This arrangement to apply to steam vessels loaned by one Company to another for the ordinary purposes of their services as well as to steam vessels owned and used by a Railway Company.

The insurance of steam vessels hired by Railway Companies from independent owners to be considered and determined in each case, having regard to the terms and conditions of the hiring Agreement. Any liability undertaken by the Railway Company in such cases to be covered by outside insurance.

Authority.—Board of Trade letter, 30th April, 1917, and Railway Executive Committee Minute—No. 2795.

These arrangements to apply to tugs, dredgers, ferry boats and other floating craft which were the subject of insurance.

Authority.—Admiralty letter of 5th August, 1916, and Executive Committee Minute No. 2145.

4. Requisitioning of Steamers and Chartering of Vessels in their Place.

(1) Save in emergency, no Railway-owned boat to be requisitioned by the Admiralty except after consultation and after agreement with the Railway Executive Committee. In the event of disagreement the matter to be submitted, where time permits, to the War Committee. It must be understood that on occasion immediate requisitioning may be imperative.

(2) If it be agreed that any Railway-owned boat is to be handed over to the Admiralty for special service, and it is considered by the Board of Trade essential to replace the boat for Railway service, the Admiralty to endeavour to requisition a suitable vessel, payment

therefor being arranged in such manner as may be agreed between the Treasury and the Railway Executive Committee.

Authority.—*Admiralty letter of 9th September, 1914, and Executive Committee Minutes Nos. 179, 262, and 1447.*

5. Restoration of Vessels taken over.

The Government undertakes to refund the cost of restoring the vessels to the same condition (fair wear and tear in their ordinary business excepted) as when taken over.

Authority.—*Admiralty letter of 29th May, 1916, and Executive Committee Minutes Nos. 1983, 2018, 2124, 2221, 2634 and 2710.*

6. Steamers Lost or not Returned.

In the case of a lost boat, the Railway Company concerned is to obtain three competitive tenders for a new vessel on the original specification of that lost. From the price of the lowest competitive tender on the original specification the accrued depreciation in respect of the age of the lost ship is to be abated. This depreciation is to be calculated at 4 per cent. per annum on the original cost from the date of building to the date of loss, the cost of any large alteration (such as reboiling) being deducted from the depreciation and added to the capital at the date on which it is carried out.

NOTE.—In the case of vessels built on the "time and line" principle, where it is not practicable to obtain competitive tenders, vessels may be estimated for on the "time and line" principle or on a single tender, and the Government will obtain a report as to the amount which it would cost to build a duplicate of the vessel lost. In the event of the Railway Company not accepting the expert's estimate, the matter shall be submitted to arbitration.

The Company will then be entitled to charge in their accounts submitted to the Government Auditor, as a charge to the proved expenses of the Company, the net figure thus arrived at—viz., the price of the lowest competitive tender on the original specification less depreciation as described above (*vide* Formula) subject to the following provisos:—

Authority.—*Admiralty letter dated 18th December, 1917.*

1. Credit to be given to the Government in respect of usable articles or stores, which formed part of the capital cost of a ship, but which were removed from it at the time of requisitioning and retained by the owners or handed over to them at some other time, such credit to be the original cost, less an allowance in respect of depreciation of such articles or stores to be agreed, provided that the credit so agreed shall not be less than the market value of the articles in question at the time they are offered for sale by the Admiralty to the Railway Company concerned.

2. In the case of articles not removed at the time of the ship being requisitioned, but subsequently landed and handed over, the depreciated value for which credit is proposed to be allowed under 1 to be subject to the articles or stores being usable and their condition no worse than that occasioned by fair wear and tear.

3. Payment to be made to the owners of a vessel for articles lost with it, which were supplemental to the equipment included in the original capital cost of the ship.

4. The Railway Companies will not be required to take back and allow credit for articles which were peculiar to a particular ship, and which, the ship being lost, would be of no further practical use to them.

Authority.—*Executive Committee Minute No. 1778.*

(a) Should a new vessel be constructed of a superior character to that lost, any additional cost due to an improved type is not to be a charge against the Government.

Authority.—*Mr. Runciman's Memorandum of 26th January, 1915, and Executive Committee Minutes Nos. 730 and 785.*

(b) In the event of the Government deciding to retain any particular vessel, the case will be dealt with in the same way as a loss.

(c) The Government will advise the Companies immediately a decision to permanently retain a steamship is come to, and notify them when any vessel is lost.

Authority.—*Mr. Runciman's Memorandum of 26th January, 1915, and Executive Committee Minutes Nos. 730, 785 and 1674.*

(d) The Government will take a review of the state of Railway steamers in their possession, say, every six months, so as to be in a position to tell the Railway Companies if they consider it would not be worth while to repair any particular vessel.

Authority.—Executive Committee Minutes Nos. 1418, 1674, 2516 and 2733.

(e) The Government will afford the Railway Companies the opportunity of having a representative present in cases where important examinations of either hull or machinery are to be made in Railway vessels, to enable the Companies to take such action as may be necessary to secure classification or Board of Trade Certificate when they consider that course desirable.

This is to be done on the understanding that—

(i) Only such work as is considered necessary by Admiralty Officers is to be an Admiralty charge.

(ii) Any additional work can only be allowed on the understanding that it can be executed within the time required for the Admiralty work.

(iii) Labour and material can be spared without hampering or delaying other National work, the execution of which is not a matter of choice, but of necessity.

The presence of the representative of a Railway Company is understood to be only in order that he may be in a position to make suggestions in regard to the necessary repairs and future working of the vessel, and is not to bind a Company in any way as to their position with regard to any repairs that may be necessary in order to enable the vessel to resume its usual service.

Authority.—Mr. Runciman's Memorandum of 26th January, 1915, and Executive Committee Minutes Nos. 730, 785, 1983 and 2018; also Mr. Baddeley's letter to Sir Sam Fay, dated 16th June, 1916.

(f) The Government admit that compensation should be paid to the Railway Companies for the loss sustained in consequence of—

(i) Vessels being retained after the period of control ceases; or

(ii) Vessels being delayed by alteration or repair, or not available for Railway purposes after the control has expired, subject to an agreement being arrived at later on as to the amount or means of assessment of loss.

Authority.—Sir Alexander Butterworth's letter, dated 30th March, 1916, to Sir Thomas L. Heath, and the latter's reply, dated 31st March, 1916. Railway Executive Committee's Minutes Nos. 1492 and 1543, and Circular Letter 862.

7. Deferred Maintenance of Steamboats which have not been commandeered by the Admiralty or War Office.

The Government agree to leave the amounts due for arrears of maintenance of steamboats which have not been commandeered by the Admiralty or War Office to be settled at the conclusion of the period of Government control.

Authority.—Railway Executive Committee Instructions Nos. 186 and 243.

8. Special Services performed by the Railway Companies for the Admiralty.

All disbursements made by the Railway Companies in connection with requisitioned steamers during the time such boats are requisitioned to be treated as working expenses.

<i>Formula.</i>	SHIP LOST AT AGE OF 20 YEARS.		Accumulated Reserve.
	£		£
Capital cost of ship	20,000		
Less depreciation at 4 per cent. per annum for 15 years	12,000		12,000
At this point reboiling costs	2,000		
So that for the sixteenth year and afterwards the depreciation at 4 per cent. proceeds on	22,000		
The original cost is therefore now reduced by a depreciation at 4 per cent. for 5 years—4 per cent. on £22,000	4,400		4,400
			16,400
Deduct cost of reboiling... ..			2,000
			£14,400
Amount of lowest tender for replacement			40,000
Deduct accrued depreciation (£16,400) less cost of reboiling (£2,000)			14,400
Public funds contribute to new ship			£25,600

**XIII.—QUESTION OF COMPENSATION TO BE GIVEN TO THE RAILWAY COMPANIES
IN RESPECT OF THE USE OF UNCREOSOTED SLEEPERS.**

Document Number.	PAGE
(102) Letter of 27th June, 1917, from the Railway Executive Committee to the Board of Trade, asking for an assurance that the Railway Companies would be compensated at the end of control for any depreciation of their property that may have resulted from the use of uncreosoted sleepers	126
(103) Letter of 18th April, 1918, from the Treasury to the Board of Trade, enclosing a copy of a letter from the Railway Executive Committee on the subject, and suggesting a conference	126
(104) Letter of 16th May, 1918, from Sir Alexander Butterworth to Mr. Moggridge, enclosing a copy of a Memorandum on the subject	127
(105) Letter of 11th June, 1918, from Sir Albert Wyon to Mr. Moggridge, agreeing that the matter might be dealt with by means of a formula	128
(106) Letter of 19th June, 1918, from the Board of Trade to the Treasury, asking for their views ...	129
(107) Letter of 30th July, 1918, from the Treasury to the Board of Trade, admitting in principle the liability of the Exchequer for some compensation	129
(108) Letter of 9th August, 1918, from the Board of Trade to the Railway Executive Committee, forwarding a copy of the Treasury letter	130
(109) Letter of 24th October, 1918, from the Railway Executive Committee to the Board of Trade, pressing that the matter should be dealt with forthwith by means of a formula	130
(110) Letter of 2nd November, 1918, from the Board of Trade to the Treasury, asking for their observations on the Railway Executive Committee letter	131

(102)

F. 181.
P. 5939.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, S.W.
27th June, 1917.

Sir,

SUPPLY OF CREOSOTE.

With reference to conversation and to the letter* which Mr. Matthew has sent to the Secretary of this Committee dated 23rd instant, I have to say that we will carry out your wishes in the matter.

The effect will be that the Railway Companies will have to put uncreosoted sleepers into their permanent way, and this, coupled with the fact that a large number of the sleepers which the Railway Companies are now buying are of inferior quality, will considerably reduce the life of the sleepers. The members of this Committee will be glad therefore to have an assurance from you that the Railway Companies will be compensated at the end of the period of control for any depreciation of their property that may have resulted from the use of uncreosoted sleepers.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,

Acting Chairman.

The President,
Board of Trade,
London, S.W.

* The letter referred to was an intimation that the President of the Board of Trade wished the Railway Executive Committee to issue immediate instructions to the Railway Companies asking them to stop the use of creosote.

(103)

F. 181.
13233/18.

TREASURY CHAMBERS,
18th April, 1918.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to transmit herewith a copy of a letter from the Railway Executive Committee suggesting that a Conference should be held on the question of the use of uncreosoted timber in the maintenance of permanent way, and I am to request you to inform the Board of Trade that while My Lords are quite willing to send a representative to such a conference, They think that it should be arranged by your Department in accordance with the usual practice.

A copy of Their Lordship's reply to the Railway Executive Committee is enclosed.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(Enclosure No. 1 in Treasury letter of 18th April, 1918.)

F. 181.
S.1486/8.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.
28th March, 1918.

Dear Sir,

RESTRICTION IN THE USE OF CREOSOTE. UNCREOSOTED SLEEPERS.

Owing to the restrictions that have been placed on the use of creosote, the various Railway Companies are having to place into their road a considerable number of uncreosoted sleepers and crossing timbers. The attention of this Committee has been called to the

serious effect this will have upon the life of the road, and as a consequence the heavy additional expense that will be thrown upon the Companies—an expense which is only partially dealt with under the heading of “Deferred Maintenance.”

The question has been carefully considered by a Sub-Committee consisting of Sir A. Kaye Butterworth, Mr. F. Potter and Mr. D. Matheson, and I have to suggest that a Meeting should be arranged between these three gentlemen and someone acting on behalf of the Treasury, in order that the matter may be discussed and a decision come to as to the best way of meeting the difficulty that has arisen.

Yours faithfully,

(Signed) H. A. WALKER,

Acting Chairman.

The Secretary,

H.M. Treasury,

Whitehall, S.W.

(Enclosure No. 2 in Treasury letter of 18th April, 1918, stated that the Board of Trade had been asked to call a conference on the subject.)

(104)

F. 181.

NORTH-EASTERN RAILWAY,

4, COWLEY STREET,

WESTMINSTER, S.W.

16th May, 1918.

Dear Mr. Moggridge,

CREOSOTE.

You will remember at the meeting held at the Board of Trade on the 2nd instant it was arranged that I should send you a Memorandum setting out shortly the case as presented by the Railway Companies at the meeting with reference to the effect of laying uncreosoted sleepers.

I enclose a Memorandum which I hope will meet your purpose; if anything further is required perhaps you will kindly let me know.

Yours faithfully,

(Signed) A. KAYE BUTTERWORTH.

E. G. Moggridge, Esq.,

Board of Trade, S.W.

(Enclosure in Sir Alexander Butterworth's letter of 16th May, 1918.)

MEMORANDUM REGARDING RESTRICTION IN THE USE OF CREOSOTE.

The Railway Executive Committee have been informed by the Government that in consequence of the restrictions in imports, the tonnage of creosote necessary for properly preserving the sleepers required for the renewal of the permanent way is not available. If normal working is to be maintained and safety ensured, renewal of the permanent way must be continued.

The result is that the Companies must either—

- (1) Lay uncreosoted sleepers or sleepers treated with substitutes, or
- (2) Reduce the speed of trains.

The latter alternative is not a practicable one, because normal working must as far as possible be maintained. On the other hand, safety is imperative. The Companies cannot therefore cease laying new sleepers.

It is estimated that the life of an uncreosoted sleeper is only about 7 years as compared with an average life of some 18 years in the case of creosoted sleepers. It follows, therefore, that all clean sleepers put into the permanent way during the period of Government control will have to be renewed long before the normal date, with a corresponding money loss to the Companies.

Suggestions have been made for getting over, or partially getting over, the shortage of creosote, either by the use of substitute preserving material or of hard wood sleepers not

requiring treatment. But when all alternative methods have been made use of, it is clear that a large number of uncreosoted sleepers, or at any rate sleepers not by any means up to pre-war standard, will have to be laid, and it is to meet this loss that the Railway Executive Committee have to put forward a claim for compensation, and their suggestion is that the money loss involved in the laying of other than creosoted sleepers should be ascertained on an actuarial basis, and allowed as a special item in the monthly accounts for Arrears of Maintenance.

In making this suggestion, it is desired to point out that it involves no new principle, but is merely a variation of a principle already admitted and acted upon. The existing formula which has been adopted for ascertaining the amounts due to the Companies for Arrears of Maintenance cannot be regarded as invariable, or as representing a hard and fast bargain; it represents the simplest and most accurate means that so far has been suggested for measuring and comparing the work done in any year of the control with the work done in 1913. For that purpose a money basis has been accepted, but the formula makes no attempt to equalise any difference in circumstances other than variations in cost of materials and labour.

The present problem is how to arrive at an equitable method of making allowance for the fact that there is a difference in the value of the work done quite apart from the difference in the value of money. Thus, £1,000 spent in 1918 in laying uncreosoted sleepers may represent, say, £600 only, so far as a comparison of the actual cost of similar work in the two periods goes (and that difference is reflected in the existing formula); but the ultimate value to the Railway Companies of the work actually done compared with the ultimate value of an expenditure of £1,000 upon creosoted sleepers may be only £350, and it is for the ascertainment of this second difference that a formula is needed.

The Executive Committee are advised that there will be no difficulty in ascertaining with sufficient accuracy the loss involved by the laying of other than creosoted sleepers but there is one point of detail in connection with the calculation to which it may be well to draw attention—viz., that in the case of those Companies that have a claim against the Government for Arrears of Maintenance, allowance will have to be made for the fact that such claim will be increased by the amount of immediate saving caused by the laying of other than creosoted sleepers. This arises from (1) the saving of the cost of the creosote itself, and (2) the saving of the cost of labour in creosoting the timber. There will, however, be no difficulty in making the necessary adjustment to meet this point.

It was suggested at the meeting held at the Board of Trade on the 2nd instant with representatives of the Board of Trade and Treasury, that the principle involved in the present claim might extend beyond the present case. This may be so, but the Executive Committee submit that that is no reason for postponing the settlement of the present claim if it is found to admit of an immediate and simple solution, even though the Government may deem it necessary to safeguard the consideration of future claims of a cognate character unprejudiced by anything done with reference to the present claim.

At the same time it is right to point out that the broad principle underlying the arrangements between the Government and the Railway Companies is that the Railways shall be maintained at the cost of the Government during the period of control, and handed over to the Companies at the end of that period in the same condition physically, so far as possible, as they were in at the commencement—neither better nor worse. In accordance with this principle it has been laid down that the standard of maintenance to be observed is that which was followed by the Companies in the year 1913, and it is submitted that the present claim is merely an application of this principle to a particular case.

(105)

F. 181.

PRICE, WATERHOUSE & Co.,
3, FREDERICK'S PLACE,
OLD JEWRY, LONDON, E.C.

11th June, 1918.

Dear Mr. Moggridge,

STATE CONTROL OF RAILWAYS. SUPPLY OF CREOSOTE.

I have perused your file of papers and return it herewith.

I notice from the minutes of the meeting at which you presided and at which representatives of the Railway Executive Committee and of the Treasury were present, that the latter raised the question as to whether the State should assume responsibility for losses

suffered by the Companies arising out of the general circumstances brought about by the war.

If it be conceded that this responsibility falls upon the Government on the ground that they must hand back the undertakings at the termination of control in a condition as good as that in which they were at the beginning of control, it seems that the Companies will have a claim for compensation if, owing to the necessary employment of uncreosoted sleepers, additional expense is likely to fall upon them in the future in maintaining their property.

There would then remain only the question of determining how this compensation should be computed and when it should be paid.

As to the method of computation, I do not suppose there will be much difficulty in framing a formula to meet the case. The Railway Executive Committee might be asked to suggest such a formula for consideration.

It will also be necessary to consider whether the principle whereby payments are made to the Railway Companies for arrears of maintenance in advance of their undertaking the maintenance work represented by those arrears should apply to such a case as is now under consideration.

Yours truly,

(Signed) ALBERT W. WYON.

E. J. Moggridge, Esq.,
(Railway Department)
Board of Trade,
Whitehall Gardens,
S.W.

(106)

R. 688.

F. 181.

BOARD OF TRADE.

19th June, 1918.

Sir,

With reference to the meeting held at this Office on the 2nd May on the question of the use of uncreosoted timber for the maintenance of the permanent way of the controlled British railways, I am directed by the Board of Trade to transmit to you, for the information of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a Memorandum on the subject which has been prepared by Sir A. Kaye Butterworth on behalf of the Railway Executive Committee, together with a copy of a letter which has been received from Mr. A. W. Wyon on the subject.

The Board of Trade would be glad to learn the views of the Lords Commissioners in the matter as early as possible.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) E. G. MOGGRIDGE.

The Secretary,
Treasury, S.W.

(Memorandum enclosed with Sir Alexander Butterworth's letter of 16th May, 1918, Document No. 104, and Sir Albert Wyon's letter of 11th June, 1918, Document No. 105 enclosed.)

(107)

F. 181.

24171/18.

TREASURY CHAMBERS.

30th July, 1918.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Moggridge's letter of the 19th ultimo (R. 688) relative to the proposal of the Railway Executive Committee that the controlled Companies should be allowed to make a charge, as a special item in the monthly accounts for arrears of maintenance, in respect of the ultimate loss to be incurred by them owing to the laying of other than creosoted sleepers.

In reply I am to request you to inform the Board of Trade that My Lords fully recognise that the Companies would be damnified if in this case, where the work undertaken is necessarily of an uneconomical character, the normal arrangements for ascertainment of

deferred maintenance were rigidly followed. They are accordingly prepared to admit in principle the liability of the Exchequer for some compensation to the Railways on this account.

They direct me to state, however, that, as at present advised, they see no justification for extending to this special case the principle whereby payments are made for arrears of maintenance in advance of the execution of the maintenance work represented by those arrears.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(108)

R. 688.

F. 181.

BOARD OF TRADE.

9th August, 1918.

Sir,

With reference to previous correspondence on the question of the use of uncreosoted timber, I am directed by the Board of Trade to transmit to you, for the information of the Railway Executive Committee, the enclosed copy of a reply from the Treasury to a communication addressed to them from this Department in the matter.

I am, Sir,

Your obedient Servant,

(Signed) E. W. ROWNTREE.

The Secretary,
Railway Executive Committee.

(Treasury letter of 30th July, 1918, enclosed, Document No. 107.)

(109)

F. 181.

P. 1486/8 Sa.

RAILWAY EXECUTIVE COMMITTEE,

35, PARLIAMENT STREET, WESTMINSTER, S.W.

24th October, 1918.

Dear Sir,

SUPPLY OF CREOSOTE.

With reference to your letter of the 9th August last (R. 688), forwarding copy of a letter dated 30th July from the Treasury on this matter, the Committee note that the Treasury are prepared to admit in principle the liability of the Government for compensation to the Railways on account of the laying of other than creosoted sleepers, but that they see no justification for extending to this special case the principle accepted in the case of arrears of maintenance. With regard to this I have to say that it was not intended to suggest that that principle should be extended to the case of uncreosoted sleepers. The formula which has been prepared by the Engineers and Accountants is on the basis of compensation being paid which represents the present value of the loss which the Railways would ultimately incur—that is to say, the ultimate loss would be discounted according to the estimated life of the sleepers. This is what was intended to be conveyed by the expression “on an actuarial basis” in the statement submitted by the Committee to the Board of Trade. At the same time it was thought, and the Committee still think, that it would be much better to get the formula fixed and worked to forthwith through a system of monthly (discounted) payments on account, and perhaps you will be good enough to explain this view of the case to the Treasury. If with this further explanation

the Treasury concur in the suggestion, probably the next step should be to arrange a meeting, which Railway Accountants and Engineers should attend to agree upon the details of the formula.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

E. W. Rowntree, Esq.,
Board of Trade
(Railway Department),
7, Whitehall Gardens, S.W.

(110)

R. 688.

F. 181.

BOARD OF TRADE.

2nd November, 1918.

Sir,

With reference to your letter of the 30th July last (No. 24171/18) regarding a proposal made by the Railway Executive Committee that the controlled Companies should be allowed to make a charge in their monthly accounts in respect of the ultimate loss to be incurred by them owing to the laying of other than creosoted sleepers, I am directed by the Board of Trade to transmit to you, for the information of Lords Commissioners of His Majesty's Treasury and for such observations as Their Lordships may desire to offer thereon, the enclosed copy of a further letter from the Railway Executive Committee in the matter.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury.

(Railway Executive Committee letter of 24th October, 1918, enclosed, Document No. 109.)

N.B.—This point was carried no further.

XIV.—INSURANCE OF RAILWAY COMPANIES' PROPERTY AGAINST FIRE.

[In February, 1917, the Railway Executive Committee called the attention of the Board of Trade to the fact that certain premises belonging to Railway Companies were being used by Government Departments for purposes which entailed additional risk of Fire, and asked for an assurance that in the event of Fire arising in such premises, the Company should be relieved of all liability for damage done either to a shed, or its contents, or to adjoining property. A prolonged correspondence ensued in which the whole question of increased risk, and also that of increased cost of replacement of Railway Property damaged by Fire, was discussed. On the latter point an Agreement was concluded, and is printed as Document No. 113 below.

On the former point no definite agreement was reached, but the Treasury indicated the lines on which, in their opinion, cases should be dealt with, and the position, in so far as it has been defined, is stated in Documents Nos. 114-118 below.]

Document Number.	PAGE
(111) Letter of 15th January, 1919, from the Board of Trade to the Treasury, forwarding for approval draft Heads of Agreement with the Railway Companies as regards the increased cost of replacement of Railway property damaged by fire, and stating that the Board of Trade proposed to give an assurance that warehouses, in which fixed spaces are let to traders at rents which are treated as receipts "below the line," would not be excluded ...	133
(112) Letter of 7th February, 1919, from the Treasury to the Board of Trade approving the draft Heads of Agreement and the Board of Trade proposal	133
(113) Letter of 4th March, 1919, from the Board of Trade to Railway Executive Committee, stating that Heads of Agreement had been approved by the Treasury subject to certain conditions	134
(114) Letter of 4th March, 1919, from the Board of Trade to the Railway Executive Committee conveying the Treasury view that the risk of damage by fire to Railway property occupied by Government Departments should be dealt with on the principle that the Government would be responsible for such damage on certain conditions, including particularly the condition that Government occupation had been of such a character as substantially to increase the risk	134
(115) Letter of 28th August, 1919, from the Railway Executive Committee to the Board of Trade, objecting to some of the conditions proposed, especially the limitation mentioned above	135
(116) Letter of 5th September, 1919, from the Board of Trade to the Railway Executive Committee, in reply to the letter of 28th August, 1919, stating how far they were prepared to go in meeting the views of the Railway Companies in the matter	136
(117) Letter of 20th April, 1920, from the Standing Committee of General Managers to the Ministry of Transport, stating that, with one exception, the controlled Railway Companies are prepared to accept the Agreement which had been approved by the Treasury in letter of 7th February, 1919, and asking if it is still open for acceptance	137
(118) Letter of 20th July, 1920, from the Ministry of Transport, stating that the Agreement is still open for acceptance	137

(111)

R. 4587.

BOARD OF TRADE.

15th January, 1919.

Sir,

With reference to previous correspondence regarding the insurance of Railway Companies' property against fire, I am directed by the President of the Board of Trade to transmit to you, for the information of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of draft Heads of Agreement relating to increased cost of replacement which have been provisionally agreed between the Railway Executive Committee and this Department, and I am to say that, subject to Their Lordships' concurrence, the Board of Trade propose to assent to the Heads of Agreement and to give an assurance that warehouses in which fixed spaces are let to traders at rents which may be treated as receipts "below the line" would not be excluded from the provisions of the Agreement.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury.

(Enclosure in Board of Trade letter of 15th January, 1919.)

HEADS OF AGREEMENT BETWEEN THE RAILWAY COMPANIES AND THE GOVERNMENT AS
TO FIRE INSURANCE.

1. In the event of damage caused by or resulting from fire or explosion to property of a Railway Company (other than property the rent of which would normally be included in the lower half of Account No. 8 of the Statutory Form of Railway Accounts), and whether the property is insured or not, the Government to pay any increase in the cost of restoring or reinstating such property due to the rise in prices of labour or material since 1913, such payment, in the absence of agreement to the contrary, to be made as soon as the restoration or reinstatement has been carried out, and whether such restoration or reinstatement is carried out during the period of Government control or not. Provided that this Clause shall not apply in so far as the increase is recovered by the Railway Company from an outside insurance company under a policy of insurance, or where the Company is, apart from this Agreement, entitled to include the cost of restoring or reinstating such property in its Working Expenses.

2. Any question or difference arising under these Heads of Agreement may by agreement between the Government and the Railway Company concerned be referred to an Arbitrator, whose decision shall be final.

3. The arrangement hereinbefore set out to have effect as from the commencement of the period of Government control, but not to override or modify the existing arrangement between the Government and the Railway Companies with reference to damage from air raid or bombardment* or any other agreement or indemnity entered into or given by or on behalf of the Government with or to the Railway Companies or any individual Railway Company. Provided that the amount payable by the Government hereunder in respect of the period 5th August, 1914, to 31st December, 1915, shall not exceed Three Thousand Pounds for all Companies.

* See Clause IV of Document No. 71.

(112)

TREASURY CHAMBERS.

7th February, 1919.

2564/19.

Sir,

The Lords Commissioners of His Majesty's Treasury have had before them Mr. Moggridge's letter of the 15th ultimo (R. 4587) and the accompanying draft Heads of Agreement between the Railway Executive Committee and the Government as to the increased cost of replacing Railway property damaged by fire or explosion.

In reply I am to request you to inform the Board of Trade that My Lords concur in the terms proposed and in an assurance being given that warehouses in which fixed spaces

(B 16959)

I 3

are let to traders at rents which may be treated as receipts "below the line," would not be excluded from the provisions of the Agreement. It will, of course, be understood that in all cases the increased cost of replacement will be calculated with reference to property exactly corresponding to that damaged, any betterment resulting from the restoration or replacement being excluded.

I am, Sir,
Your obedient Servant,
(Signed) T. L. HEATH

The Secretary,
Board of Trade.

(113)

R. 553.
F. 180.

BOARD OF TRADE.
4th March, 1919.

Sir,

With reference to your letter* of the 24th December (P. 72/4 Sa.), with which was enclosed a copy of draft Heads of Agreement between the Railway Companies and the Government with regard to the payment of the increased cost of reinstating Railway property destroyed or damaged by fire, I am directed by the Board of Trade to state that the Treasury have now approved the draft heads of Agreement enclosed with your letter on the understanding—

- (1) That warehouses in which fixed spaces are let to traders at rents which may be treated as receipts "below the line" would not be excluded from the provisions of the Agreement.
- (2) That in all cases the increased cost of restoration or replacement will be calculated with reference to property exactly corresponding to that damaged, any betterment resulting from the restoration or replacement being excluded.
- (3) That the Agreement being an "above the line" agreement does not apply to property where the cost of maintaining it except in so far as covered by insurance would not be charged to working expenses "above the line."

I am, Sir.,
Your obedient Servant,
(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Railway Executive Committee,
35, Parliament Street, S.W.

* Not printed, see Note at commencement of Section XIV.

(114)

R. 1119.
F. 180.

BOARD OF TRADE.
4th March, 1919.

Sir,

With reference to your letter† of the 24th December (P. 72/4 Sa.) in which reference was made to the question of the liability of the Government in respect of damage occurring to Railway Companies' premises occupied by Government Departments, I am directed by the Board of Trade to state that the Treasury are prepared to agree that any cases of such damage which may have arisen since 1915, or which may arise in the future, should be dealt with on the understanding that the Government will be responsible for damage by fire or explosion caused to Railway Companies' properties occupied by Government Departments, or damage to any other property belonging to the Railway Company concerned, or for which the Railway Company may be responsible, caused by or resulting from fire or explosion occurring on the property so occupied, provided—

- (1) That the Government occupation has been of such a character as substantially to increase the risk from these causes.

† Not printed, see Note at commencement of Section XIV.

- (2) That the Government shall not be liable in so far as the damage is recoverable under a policy of insurance with an outside insurance company.
- (3) That the Government has not already entered into an agreement with the Railway Company covering the case.
- (4) That as regards damage from fire the Company shall, so far as the circumstances of the case will permit, produce satisfactory evidence that the origin of the fire was due to, or that the damage therefrom was substantially increased by, the Government occupation.

With regard to the introduction of the word "substantially" in proviso (1), I am to say that the Treasury take the view, with which the Board of Trade concur, that if the Government is to accept liability for the whole damage in any case in which any liability is admitted, it is essential that liability should only be admitted in cases in which the risk is substantially increased by reason of the Government occupation.

With regard to proviso (4), I am to point out that under the arrangement proposed above it would not be necessary, as previously suggested, that the premises to which the arrangement applied should be scheduled, and in these circumstances the mere fact of any damage having occurred from fire to any occupied premises might, but for the proviso, tend to prejudge the question of the existence of special risk.

I am, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Railway Executive Committee.

(115)

P. 72/4.
F. 180.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

28th August, 1919.

Sir,

FIRE INSURANCE.

1. With reference to your letter (R. 1119) of the 4th March as to the acceptance by the Government of liability for damage by fire or explosion to Railway Companies' premises occupied by the Government, or premises adjacent to those so occupied, subject to certain provisos which are set out in that letter, I have to inform you that the contents of your letter were communicated to the controlled Companies with a request to state whether they were prepared to accept the terms proposed, and a number of the replies are to the effect that having regard to the terms of proviso (4), and the insertion of the word "substantially" in proviso (1), the Companies are not prepared to accept the arrangement, which is considered unduly stringent in the form proposed.

2. As I think you are aware, the Executive Committee have throughout thought that the word "substantially" would give rise to trouble, and this difficulty has been accentuated by the attempt to safeguard the situation by a *twofold* protection—first, by defining the general character of the occupation ("substantially increasing risk,"), and, secondly, by putting the onus of proof as to the origin of the particular fire, not on the persons in occupation, but on the owners.

3. I shall be glad to know how you propose to meet the situation, as I am convinced that a number of the Companies will not accept the arrangement in its present form.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

The Assistant Secretary,
(Railway Department)
Board of Trade,
7, Whitehall Gardens, S.W.

(B 16959)

(116)

R. 1119.
F. 180.

BOARD OF TRADE.

5th September, 1919.

Sir,

In reply to your letter of the 28th August (P. 72/4) on the subject of liability for damage as a result of fire or explosion to Railway Companies' premises occupied by Government Departments, I am directed by the Board of Trade to state that, for the reasons explained in their letter of the 4th March, they could not agree to the elimination of the word "substantially" in proviso (1) to the arrangements suggested in that letter. It should not be overlooked that, if any such alteration were made, the effect would be that part of the ordinary liability in respect of fire risks on Railway Companies' premises would be transferred from the Railway Companies' insurance funds to the Government without any compensating consideration.

With regard to the remarks contained in your letter on the subject of proviso (4), I am to say that this proviso was not intended to place the onus of proof as to the origin of a particular fire on the Railway Company owning the premises in connection with which it occurred, but only to require that the Railway Company should, so far as the circumstances of the case would permit, produce satisfactory evidence in this respect. The Board, however, if it is clearly understood that the mere fact of damage having occurred from fire to any occupied premises would not be regarded as being in itself evidence of the existence of substantially increased risk, would be prepared to suggest to the Treasury that in all the circumstances it may not be necessary to retain this proviso in addition to proviso (1).

I am, Sir,

Your obedient Servant,

(Signed) E. W. ROWNTREE.

The Acting Chairman,
Railway Executive Committee,
35, Parliament Street, S.W.

MINISTRY OF TRANSPORT CORRESPONDENCE.

(117)

P. 72/4.

35, PARLIAMENT STREET, WESTMINSTER, LONDON, S.W.

20th April, 1920.

Dear Sir,

FIRE INSURANCE.

With reference to the letter from the Board of Trade dated 4th March, 1919, signed by Mr. Moggridge, enclosing copy of draft Heads of Agreement between the Railway Companies and the Government with regard to the payment of the increased cost of reinstating Railway property destroyed or damaged by fire during the period of Government control, I have to inform you that, with one exception, the controlled Companies have expressed their readiness to accept the arrangement embodied in the draft Heads and the Board of Trade letter referred to.

The Standing Committee of General Managers propose, therefore, to intimate to the Companies (with the exception above referred to) that the arrangement has been accepted on their behalf, but before doing so, they would like to be assured that the arrangement remains open for acceptance and that they will be in order in making this intimation.

Yours faithfully,

(Signed) GEO. H. WHEELER.

The Secretary,

Ministry of Transport.

(118)

F. 734.

MINISTRY OF TRANSPORT,
FINANCIAL AND STATISTICAL DEPT.

20th July, 1920.

Sir,

With reference to your letter of the 6th July,* respecting the draft Heads of Agreement between the Railway Companies and the Government in regard to the payment of the increased cost of reinstating Railway property destroyed or damaged by fire, I am directed by the Minister of Transport to state that it will be in order to make the intimation to the Railway Companies referred to in the second paragraph of your letter of the 20th April last, and that he concurs in the proposal of the General Managers' Committee to do so.

The Minister notes with regret that one of the controlled Companies finds itself unable to act in harmony with the others in a matter on which a complete agreement is obviously desirable.

I am, Sir,

Your obedient Servant,

(Signed) J. G. BEHARRELL.

The Secretary,

Standing Committee of General Managers,
35, Parliament Street, S.W.

* This letter stated that the one Company which dissented was of opinion that the arrangement was not required.

XV.—FINANCIAL ARRANGEMENTS MADE TO FACILITATE THE IMMEDIATE PURCHASE OF STORES BY THE RAILWAY COMPANIES AFTER THE ARMISTICE.

Document Number.	PAGE
(119) Communication of 5th December, 1918, from the Railway Executive Committee to the Board of Trade, suggesting, in response to the President's request, a method by which Railway Companies might be encouraged to place immediate orders for stores... ..	139
(120) Letter of 10th December, 1918, from the Board of Trade to the Treasury, asking whether they concurred in the arrangements suggested	139
(121) Letter of 3rd January, 1919, from the Treasury to the Board of Trade, concurring with the arrangements under certain conditions	140
(122) Letter of 8th January, 1919, from the Board of Trade to the Railway Executive Committee, approving the proposed arrangements with a slight modification	140
(123) Circular letter No. 1694 issued on 23rd January, 1919, by the Railway Executive Committee to the Railway Companies, notifying them of the arrangements	141

(119)

P.S. 2154/5/Wr.

F. 193.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

5th December, 1918.

Dear Sir,

STEEL, ETC., FOR RAILWAY REQUIREMENTS.

1. You will remember on one of your recent visits to this Office you asked us to consider the terms upon which the Railway Companies might be recommended to immediately place orders for stores likely to be required for their use during the next year or two, the intention being, as we understand it, to enable such orders to be placed without necessitating any financial loss to the Railway Companies themselves.

2. I have pleasure in sending you herewith copy of a Memorandum which has been prepared on the subject, and upon hearing that you have obtained Treasury sanction to the arrangement, we will see that the Railway Companies are advised accordingly.

I am, Sir,

Your obedient Servant,

(Signed) H. A. WALKER,
Acting Chairman.

The President,
Board of Trade, S.W.

(Enclosure in Railway Executive Committee letter of 5th December, 1918.)

REPORT OF COMPENSATION ACCOUNTS SUB-COMMITTEE ON QUESTION REFERRED TO THEM
ON PURCHASE OF STORES IN RESPONSE TO THE APPEAL OF THE PRESIDENT OF THE
BOARD OF TRADE.

The Companies would agree to place orders at once for all stores required for the year 1919—the same to be paid for by the Companies as the stores are required by them and charged against the Government as and when issued.

The Companies would further agree to place orders for such stores as they estimate they will be able to use during the remainder of the period of control on the understanding that the same are paid for by the Government, or if not, that the Companies pay the accounts and charge interest on the amount thereof at the rate of 5 per cent. per annum on the amounts paid from the date of payment to the last day of the month prior to that in which the stores are issued.

If as a result of this action any Company finds itself at the end of the period of control in possession of a stock of any stores in excess of the stock held by such Company at the commencement of the war, and such excess quantity has been purchased at a price higher than the price current in 1913, the Government shall pay to the Company the difference between the purchase price and such current price on the excess amount of stores.

The above is subject to the continuance of the present arrangement as to arrears of maintenance.

(120)

R. 4330.

F. 193.

BOARD OF TRADE.

10th December, 1918.

Sir,

I am directed by the Board of Trade to transmit to you, for the information of the Lords Commissioners of His Majesty's Treasury, the enclosed copy of a Report of the Compensation Accounts Sub-Committee of the Railway Executive Committee on the question of the purchase of stores required for the year 1919 and subsequently during the control period, and I am to explain that this communication has been received in response to a request made to the Railway Executive Committee by the President to consider what

steps could be taken, so far as the Railways are concerned, to facilitate the transference of munitions work to ordinary production. In view of the urgency of the matter the Board would be glad to learn as soon as possible whether the Lords Commissioners are prepared to agree to the financial proposals suggested.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Treasury, S.W.

(Enclosure in Railway Executive Committee letter of 5th December, 1918, Document No. 119 enclosed.)

(121)

F. 193.

47588/18.

TREASURY CHAMBERS.

3rd January, 1919.

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Moggridge's letter of 10th ultimo (R. 4330) relative to the purchase of Railway stores required for the year 1919 and subsequently during the control period with a view to facilitating the transference of munitions work to ordinary production.

In reply I am to request you to inform the Board of Trade and the Railway Executive Committee that Their Lordships concur in the financial arrangements suggested, subject to the following observations.

1. Instead of leaving each Railway Company to form its own estimate of the probable length of the period of control, My Lords think it better to substitute in the second paragraph of the report the words "during the first six months of 1920" for the words "during the remainder of the period of control."

2. My Lords assume that in determining whether there is excess of stock of stores at the end of the control period, as compared with 1913, due regard will be had to any material extension of the Railway system concerned.

I am, Sir,

Your obedient Servant,

(Signed) T. L. HEATH.

The Secretary,
Board of Trade.

(122)

R. 135.

F. 193.

BOARD OF TRADE.

8th January, 1919.

Sir,

With reference to your letter of 5th December (P.S. 2154/5/Wr) regarding the immediate placing by Railway Companies of orders for stores likely to be required in the near future, I am directed by the Board of Trade to inform you that the Treasury agree to the suggestions put forward in the report enclosed with your letter subject to the substitution in the second paragraph of the words "during the first six months of 1920." for the words, "during the remainder of the period of control," and on the assumption that in determining whether there is excess of stock of stores at the end of the control period, as compared with 1913, due regard will be had to any material extension of the Railway system concerned.

I am, Sir,

Your obedient Servant,

(Signed) ERNEST G. MOGGRIDGE.

The Secretary,
Railway Executive Committee.

(123)

(Circular Letter, No. 1694.)

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S.W.

23rd January, 1919.

Dear Sir,

PURCHASE OF STORES FOR RAILWAY COMPANIES.

1. An appeal has been made by the Minister of Munitions and by the President of the Board of Trade that, with a view to assisting the various firms occupied in manufacturing materials and stores used on the Railways, the Railway Companies shall, within the next two or three weeks, place orders for any materials and stores as are manufactured in this country and are likely to be required for use during the next 18 months.

2. Many of the larger Railway Companies have expressed themselves as willing to fall in with the proposal, but have asked that some arrangement may be come to with the Treasury in regard to the financing of the arrangement. An Agreement has, therefore, been arrived at with the Treasury and Board of Trade on the following lines :—

- (i) The Companies will agree to place orders at once for all stores required for use during the present year. The same to be paid for by the Companies as the stores are required by them and charged against the Government as and when used.
- (ii) The Companies would further agree to place orders for such stores as they estimate they will be able to use during the first six months of 1920, on the understanding that the Companies pay the accounts, and the Government allow interest, at the rate of 5 per cent. per annum, on the amounts paid from the date of payment to the last day of the month prior to the date on which the stores are issued.
- (iii) If, as a result of this action, any Company finds itself at the end of the period of control in possession of a stock of any stores in excess of the stock held by such Company at the commencement of the war and such excess quantity has been purchased at a price higher than the price current in 1913, the Government shall pay the Company the difference between the purchase price and such current price on the excess amount of stores.
- (iv) In determining whether there is an excess of stores at the end of the control period as compared with 1913, due regard must be had to any material extension of the Railway system concerned.

3. The intention is that any material and stores ordered and used during the current year will be dealt with in the usual way through the Railway Company's accounts, and that the arrangement for charging interest will only apply to stores and materials ordered during the next two months in anticipation of the requirements for the first six months of 1920.

If the proposition is one that appeals to you, we shall be glad if you will at once act upon it, advising us in due course of any orders you are able to place for stores and materials required for use during the period January, 1919, to June, 1920.

Yours faithfully,

(Signed) H. A. WALKER,
Acting Chairman.

The General Manager

_____ Railway.

**XVI.—ARRANGEMENTS WITH REGARD TO THE RETURN OF RAILWAY ROLLING
STOCK SENT OVERSEAS.**

Document Number.	PAGE
(124) Heads of Arrangement between the Railway Companies and the Government in regard to locomotives and wagons sent overseas	143

(124)

**HEADS OF ARRANGEMENT BETWEEN THE RAILWAY COMPANIES AND THE GOVERNMENT
IN REGARD TO LOCOMOTIVES AND WAGONS SENT OVERSEAS.**

1. Locomotives and wagons as far as practicable to be returned within six months after the declaration of Peace.

2. Subject to the following Clause the Companies to be at liberty at cost of Government to execute such repairs as may be necessary to put such locomotives or wagons as are returned in substantially as good a condition as they were in when sent to France. Any sums expended by any Company to be repaid by the Government as a special item in the month following the expenditure.

3. Before any such repairs are executed opportunity to be given to the Government of inspecting any locomotive or wagon which it is proposed to repair, and, if the Government so desire, a statement to be given to some person nominated by them setting out the nature and extent of the intended repairs and the estimated cost of the same, in which case it shall be open to the Government, if they so decide, and give notice of such decision, before the repairs are taken in hand, instead of paying the actual cost of the repairs carried out, to pay the estimated cost of such repairs as are "necessary" within the meaning of Clause 2. Any dispute as to what repairs are so necessary or as to the estimated cost of the same, to be referred to an experienced Locomotive Engineer to be appointed unless otherwise agreed by the President of the Institution of Mechanical Engineers, whose decision shall be final.

4. Locomotives and wagons known to be lost or destroyed, and replaced during Government control, to be paid for by the Government at the prices current when the replacements are effected. Such payment to be made either as soon as the Company concerned has made good its arrears of normal renewals which have accumulated during Government control, or at the end of Government control, whichever shall first happen.

5. Any locomotives or wagons which are not returned at the end of the Government control, other than those referred to in Clause 4, to be paid for by the Government as and when replacements are effected at the prices then current, and whether arrears of normal renewals have been made good or not. Provided that it shall be open to any Company at the end of the Government control to claim immediate payment for any such locomotives or wagons, in which event the Government shall thereupon make a payment on account at normal (pre-war) values, subject to adjustment when the actual cost of replacement shall have been duly ascertained. Provided also that if such a payment on account is made, and the Company concerned shall establish a claim upon the Government in respect of loss of traffic receipts or otherwise arising out of shortage of rolling stock after the end of the Government control, then interest at the rate of 4 per cent. per annum upon the amount paid on account and calculated from the date of such payment shall be set off against such claim.

6. From the amounts payable to any Company under Clauses 4 and 5 there shall be deducted—

(i) In the case of locomotives, a sum equal to the depreciation of the locomotives not returned, the amount of such depreciation in case of difference between the War Office and the Railway Company concerned to be settled by an experienced Locomotive Engineer to be appointed as mentioned in Clause 3.

(ii) In the case of wagons, a sum calculated in accordance with the table set out in Railway Executive Committee Circular Letter No. 415 on the original cost.

7. In the event of any sum due to any Company under these Heads of Arrangement not being paid within one month after a claim for the sum has been rendered, interest at the rate of 4 per cent. per annum to be paid by the Government on such sum from the expiration of such month to the date of payment.

8. The cost of all repairs carried out overseas to be borne by the Government.

19th February, 1919.

**XVII.—ARRANGEMENTS MADE BETWEEN THE MINISTRY OF MUNITIONS AND THE
RAILWAY EXECUTIVE COMMITTEE WITH REGARD TO PAYMENTS FOR
PERMANENT WAY MATERIALS SUPPLIED FOR USE OVERSEAS.**

Document Number.	PAGE
(125) Circular Letter No. P. 1465/4, issued by the Railway Executive Committee to the Railway Companies on 16th November, 1917, in regard to above	145

(125)

P. 1465/4.

RAILWAY EXECUTIVE COMMITTEE,
35, PARLIAMENT STREET, WESTMINSTER, S. W.

16th November, 1917.

Dear Sir,

PERMANENT WAY MATERIALS FOR OVERSEAS.

1. The arrangements with regard to the payments to be made to Railway Companies which have supplied Permanent Way Materials for use overseas have been agreed with the Ministry of Munitions, on behalf of H.M. Government, and are as follows:—

Class "A."—Materials taken from a Running Line which will have to be Restored.

The Government will pay now the prices for materials set out in Class "A," as shown in the Schedule appended hereto. In addition it has been agreed that the extra cost, if any, of providing all the materials required in replacing such Lines, together with the whole cost of labour involved in such replacements, will be paid for by the Government, as and when such costs are incurred.

It has also been agreed that while the Government will bear all costs attaching to the materials provided in restoration, they will not, in the event of such restored materials costing less than the agreed-on prices, ask the Railway Companies to refund the difference between such prices and the actual cost of the restored materials.

Class "B."—Materials supplied out of Stock.

As a payment on account the Government will pay now for these materials the prices set out in Class "A," as shown in the Schedule appended hereto, and in addition they have agreed to bear the extra cost, if any, incurred in replacing the stock when such stock is replaced.

Class "C."—Materials taken from a Running Line which will not be restored.

With regard to the materials falling under this head, the Government have agreed to pay now the prices set out in Class "C," as shown in the Schedule appended hereto.

2. It has further been agreed that in addition to paying the unit prices as set out in the Schedule, the Government will bear the cost of lifting and handling the materials, and all other costs incidental to the despatch of the material overseas, and their reinstatement, including the cost of any necessary alterations which the Railway Companies have had or will have to make in, say, the conversion of a double line into a single line, and the reconversion of a single line into a double line.

3. It must be clearly understood that in making up the charges against the Government under paragraph 2 hereof, out-of-pocket expenses only shall be included, with an addition of 12½ per cent. to cover superintendence, use of tools, etc. Carriage charges must not be included. It must also be noted that the prices laid down in the Schedule are not subject to any percentage addition.

4. Will you kindly arrange for accounts to be prepared on behalf of your Company in accordance with the foregoing arrangements and rendered to the Executive Committee at 16, Great George Street, Westminster, S. W., as soon as possible, in order that the amounts due may be included in the next monthly statement rendered to the Government in respect of the manufacture of munitions of war.

5. Please acknowledge receipt.

Yours faithfully,

(Signed) H. A. WALKER,

Acting Chairman.

SCHEDULE.

<i>Class (A)</i> —										£	s.	d.	
Rails	...	...	...	...	...	...	...	...	...	5	0	0	per ton.
Chairs (all classes)	...	...	...	...	...	...	...	...	...	4	0	0	" "
Points and Crossings (excluding Lever Boxes)	...	...	...	...	...	...	...	...	...	20	0	0	" set.
Fishplates	...	...	...	...	...	...	...	...	...	7	0	0	" ton.
Fishbolts	...	...	...	...	...	...	...	...	...	9	0	0	" "
Spikes	...	...	...	...	...	...	...	...	...	6	0	0	" "
Trenails	...	...	...	...	...	...	...	...	...	0	0	1	each.
Fang Bolts and Screws	...	...	...	...	...	...	...	...	...	10	0	0	per ton.
Sleepers	...	...	...	...	...	...	...	...	...	0	5	0	each,
Half Timbers	...	...	...	...	...	...	...	...	...	0	2	6	per cubic foot.
Keys	...	...	...	...	...	...	...	...	...	4	0	0	" 1,000.
Key Packings	...	...	...	...	...	...	...	...	...	0	10	0	" "
Lever Boxes, including Rods	...	...	...	...	...	...	...	...	...	2	10	0	each.
Keying Hammers and Spanners	...	...	...	...	...	...	...	...	...	0	3	0	"
 <i>Class (C)</i> —													
Rails	...	...	...	...	...	...	...	...	...	7	0	0	per ton.
Chairs (all classes)	...	...	...	...	...	...	...	...	...	4	10	0	" "
Points and Crossings (excluding Lever Boxes)	...	...	...	...	...	...	...	...	...	20	0	0	" set.
Fishplates	...	...	...	...	...	...	...	...	...	9	0	0	" ton.
Fishbolts	...	...	...	...	...	...	...	...	...	12	0	0	" "
Spikes	...	...	...	...	...	...	...	...	...	9	0	0	" "
Trenails	...	...	...	...	...	...	...	...	...	0	0	1½	each.
Fang Bolts and Screws	...	...	...	...	...	...	...	...	...	11	0	0	per ton.
Sleepers	...	...	...	...	...	...	...	...	...	0	6	0	each.
Half Timbers	...	...	...	...	...	...	...	...	...	0	2	6	per cubic foot
Keys	...	...	...	...	...	...	...	...	...	4	0	0	" 1,000.
Key Packings	...	...	...	...	...	...	...	...	...	0	10	0	" "
Lever Boxes, including Rods	...	...	...	...	...	...	...	...	...	2	10	0	each.
Keying Hammers and Spanners	...	...	...	...	...	...	...	...	...	0	3	0	"

LIST OF RAILWAY COMPANIES IN THE UNITED KINGDOM WHOSE UNDERTAKINGS ARE
IN THE POSSESSION OF THE MINISTER OF TRANSPORT.

(NOTE.—It has not been thought necessary to print the names of Companies and Committees whose lines are leased to or worked by the Companies named in the list.)

GREAT BRITAIN.

Alexandra (Newport and South Wales) Docks and Railway.
Avonmouth Light.
Barry.
Brecon and Merthyr Tydfil Junction.
Burry Port and Gwendreath Valley.
Caledonian.
Cambrian.
Cardiff.
Cheshire Lines Committee.
Cleator and Workington Junction.
Cleobury Mortimer and Ditton Priors Light.
Cockermouth, Keswick and Penrith.
Colne Valley and Halstead.
Dearne Valley.
Easingwold.
East and West Yorkshire Union.
Festiniog.
Freshwater, Yarmouth and Newport.
Furness.
Glasgow and South Western.
Great Central.
Great Central and Midland Joint Committee.
Great Central and North Staffordshire Railway Committee.
Great Central, Hull and Barnsley and Midland Committee.
Great Eastern.
Great Northern.
Great North of Scotland.
Great Western.
Great Western and Great Central Joint Committee.
Great Western and Midland Joint Committee.
Highland.
Hull and Barnsley.
Hull and Barnsley and Great Central Joint Committee.*
Isle of Wight.
Isle of Wight Central.
Kent and East Sussex Light.
King's Lynn Dock and Railway.
Knott End.
Lancashire and Yorkshire.
Liverpool Overhead.
Llanelly and Mynydd Mawr.†
London and North Western.
London and South Western.
London, Brighton and South Coast.
London, Chatham and Dover.
Lynton and Barnstaple.
Manchester South Junction and Altrincham.
Maryport and Carlisle.
Mersey.
Methley Railway Joint Committee.
Metropolitan.
Metropolitan and Metropolitan District (City Lines and Extensions) Joint Committee.
Metropolitan and Great Central Joint Committee.
Metropolitan District.
Midland.
Midland and Great Northern Joint Committee.
Midland and South Western Junction.
Mid-Suffolk Light.
Neath and Brecon.
Norfolk and Suffolk Joint Committee.
North British.
North Eastern.
North London.

* This line was opened on 1st May, 1916, and was controlled as from that date.

† Controlled as from 1st April, 1919.

North Staffordshire.
 North Sunderland Light.
 Oldham, Ashton-under-Lyne and Guide Bridge.
 Plymouth, Devonport and South Western Junction.
 Portpatrick and Wigtownshire Joint Committee.
 Port Talbot Railway and Docks.
 Rhymney.
 Shropshire and Montgomeryshire Light.
 Somerset Joint Committee.
 South Eastern.
 South Eastern and Chatham Railway Companies Managing Committee.
 Southwold.
 South Yorkshire Joint Line Committee.
 Stratford-upon-Avon and Midland Junction.
 Taff Vale.
 Weston, Clevedon and Portishead Light.
 West Riding Railway Committee.
 Whitechapel and Bow Joint Committee.
 Wirral.

IRELAND.

Balliniscarthy and Timoleague Junction Light, and Timoleague and Courtmacsherry Extension Light.
 Ballycastle.
 Belfast and County Down.
 Bessbrook and Newry Tramway.
 Blessington and Poulaphouca Steam Tramway.
 Carrickfergus Harbour Junction.
 Castlederg and Victoria Bridge Tramway.
 Cavan and Leitrim, Limited.
 Clogher Valley, Limited.
 Cork and Macroom Direct.
 Cork and Muskerry Light.
 Cork, Bandon and South Coast.
 Cork, Blackrock and Passage.
 Cork City.
 County Donegal Railway Joint Committee.
 Donoughmore Extension Light.
 Dublin and Blessington Steam Tramway.
 Dublin and Lucan Electric.
 Dublin and South Eastern.
 Dundalk, Newry and Greenore.
 Giant's Causeway, Portrush and Bush Valley Railway and Tramway.
 Great Northern (Ireland).
 Great Southern and Western.
 Listowel and Ballybunion.
 Londonderry and Lough Swilly.
 Midland Great Western of Ireland.
 Midland (Northern Counties Committee).
 Schull and Skibbereen Tramway and Light Railway.
 Sligo, Leitrim and Northern Counties.
 Tralee and Dingle Light.
 Waterford and Tramore.
 West Clare, Limited.

NOTE.—The Irish Railways were controlled, for accounting purposes, as from 1st January, 1917.

APPENDIX II.

EXTRACT FROM THE FIRST SCHEDULE TO THE RAILWAY COMPANIES (ACCOUNTS AND RETURNS) ACT, 1911.

FINANCIAL ACCOUNTS.

No. 8.—REVENUE RECEIPTS AND EXPENDITURE OF THE WHOLE UNDERTAKING.

See Statement.		Gross Receipts.	Expenditure.	Net Receipts.	Year 19—.		
					Gross Receipts.	Expenditure.	Net Receipts.
		£ s. d.	£ s. d.	£ s. d.	£	£	£
10	Railway						
11	Omnibuses and other passenger vehicles not running on the railways.						
12	Steamboats						
13	Canals						
14	Docks, harbours and wharves ...						
15	Hotels, and refreshment rooms and cars where catering is carried on by the company.						
16	Other separate businesses carried on by the company (in detail).						
Miscellaneous Receipts (Net) :—							
	Rents from houses and lands						
	Rents from hotels						
	Other rents, including lump-sum tolls						
	Interest and dividends from investments in other companies (in detail).						
	Transfer fees						
	General interest						
	Special items						
	Total net income						

APPENDIX III.

SUMMARY OF EVIDENCE GIVEN BY SIR GEORGE BEHARRELL.

Witness pointed out that, whereas the intention of the legislature in the Regulation of the Forces Act of 1871 was to provide compensation to the Railways for loss or injury sustained by the exercise of the powers for the purpose of meeting a national emergency such as War, that intention has in fact, by the general trend of these arrangements, been converted into as complete a guarantee as the ingenuity of the Companies' representatives could create against the Government's action and all other collateral effects of the War.

The principle involved by this change does not appear to have been clearly visualised, or fully debated at any stage, and as the arrangements were made piecemeal, they never seem to have been fitted by those responsible into a portrayal of this conversion.

There are instances throughout where arrangements or a line of thought—originating obviously from the conception of a short War or a weekly possession of the Railways—have been prolonged throughout the seven years, and have created conditions which cannot have been intended by those who made the arrangements. But as in the instances quoted below—as regards interest on capital, and diversion of assets from above the line earning to below the line earning—there should be complete reciprocity throughout.

Apart from these general points, the more important features of the Agreements may be summarised as follows:—

1. Maintenance.

Repairs	Companies claim they are entitled to spend what is necessary with no limit. This applies to all abstracts.
Renewals	Companies admit that for complete renewal of running lines and rolling stock they are liable for 1913 cost of any excess work over 1913 quantum, but that the Government are liable for additional cost over 1913 prices. With regard to other renewals the companies claim to have same liability as in the case of repairs except in a few cases where there has been a definite programme. They further claim that each abstract stands by itself.

Witness submits maintenance must be treated as a whole and that there should be strict adherence to the 1913 quantum. This in witness's opinion would be in conformity with the spirit and intention of the agreements and is essential for the protection of the Government. The quantum adjusted of course to current prices after allowance for units maintained. If, owing to special circumstances, repairs in excess of 1913 quantum are necessary, they should form the subject of a special claim for abnormal wear and tear which would have to be specially adjudicated upon.

Witness further submits that where sums have been paid on account of arrears of maintenance there should be a definite term fixed at the end of which it can be assumed that a line is in a pre-control state of repair and any unspent funds in respect of repairs should revert to the Government.

Witness can find no agreement that the Government would pay the balance on arrears of maintenance until the work is actually carried out.

2. Calculation of Maintenance.

Companies claim under Circular 686 they are entitled in calculating provision for renewals to take into account increased first cost of rolling stock, even when due to renewal during control at Government expense.

As the provision is at 1913 prices subsequently adjusted to current prices, witness submits that it is inequitable and incorrect to have regard to increased first cost due solely to replacement in kind by the Government. Further that as future renewals will presumably be carried out in the companies own works the additional cost of building in outside contractors' works owing to temporary disturbance should not be taken into account.

No allowance in respect of repairs was made by companies owning rolling stock sent to France for years earlier than 1919, in respect of which year the formula was amended.

Witness submits that in view of the fact that the companies were relieved of these repairs and also that the cost of reconditioning is separately paid for by the War Office the arrears of maintenance formula should have made the necessary allowances.

A similar question arises with regard to permanent way which was sold and not lent.

3. Accumulated Maintenance Funds.

Monthly payments on account of arrears of maintenance were agreed. Owing to the length of the period of control and the smaller volume of work performed these funds at 115 per cent. of 1913 prices now amount to about £40,000,000.

Witness considers that the interest should have been credited to these funds thus reducing the Government's ultimate liability. Further that the *portion representing* repairs should now be spent before any further charges are made in Government account. The companies' contention at the time the arrangement was made was that these funds were necessary to "compensate" them for increased floating capital is not accepted by the witness, as statements submitted show the growth of outside investments for 14 com

- | | | |
|--|---|---|
| 3. <i>Accumulated Maintenance Funds—continued.</i> | | panies only from £5,000,000 to £48,000,000 since 1913, and in any case no obligation rested with the Government to provide the companies with capital to finance this business. "Control" had nothing to do with this need. |
| 4. <i>Abnormal Wear and Tear.</i> | Companies are claiming as abnormal wear and tear items merely arising in control but not due to control. | Witness submits that only claims due to control should be considered. All claims for abnormal wear and tear should be specially submitted and specifically certified by an Executive officer and be the subject of close examination. |
| 5. <i>Interest on Capital.</i> | Companies receive interest on new capital works or plant but no credit is given in respect of capital works displaced but not replaced or plant realised, e.g., lines taken up. Steamers sold. | Witness submits that the arrangement should be reciprocal. This principle should apply to realisation of capital assets not credited to capital but placed in suspense, e.g., the large sums received from the Government for lost ships and in most cases not credited to capital. |
| 6. <i>Revenue Rebates.</i> | It has been claimed that the companies are at liberty to make at Government expense special rebates to obtain competition advantages. | Witness contends that such rebates or any reductions from book rates should not be given during control but if given it can only be with a view to post control position and should therefore not be charged to the Government. |
| 7. <i>Alteration in use to which property taken over has been put.</i> | Certain premises used in connection with earning 1913 above the line revenue have been devoted to other purposes and the income credited in accordance with the companies' practice of dealing with such income below the line. | Witness submits that property taken possession of in 1914 remains in possession of the Government until the end of control and all revenue accruing due to alteration of user should belong to the Government. Interest on the value of property "earning below the line" revenue in 1913 but subsequently taken for "above the line" purposes has been allowed although the capital expenditure was not of recent date. No objection is taken to this but it should be reciprocal. |
| 8. <i>Bad Debts.</i> | Some companies in 1913 charged bad debts to "below the line" fund and did not reduce traffic receipts. Under Section 3 (d) of the Blue Book these companies now charge bad debts to the Government. | Witness submits that as in the case of certain companies the receipts in the base year were not reduced by any provision for bad debts those companies should continue their 1913 practice throughout control. Apart from the relevancy and equity of safeguarding the companies against the collateral effects of the War. |
| 9. <i>Replacement of Stores.</i> | The existing agreement (Pink Book p. 89) provides that the Government shall pay to the companies the difference between book prices in 1914 and book prices at end of control on stock of stores at latter date not exceeding stock of stores on hand at commencement of control period. Further in case of a shortage, the Government to pay the difference between book value in 1914 and replacement prices on the deficiency. | Witness submits that the stock of stores is an essential part of each undertaking of which possession was taken. The companies have been paid a proper issue price for all stores consumed and as rates have since been fixed having regard <i>inter alia</i> to current cost of stores witness is of opinion that on that ground alone the Government should not be called upon to bear a burden which has now been placed on the users of the railways. If they are, the companies, at the end of control, will hold a pre-War stock of stores standing at pre-War prices in their books with charges based on current prices, a circumstance quite unforeseen when the Pink Book was issued. |

The following instances where the points of view of the Companies are divergent, but which nevertheless are important, are given :—

Calculation of Maintenance

- (1) Some companies calculate increased cost of renewals due to rise in prices on gross cost and not on net cost, i.e., after allowing for scrap value on sales.
- (2) Some companies in charging for engine power used for permanent way maintenance have continued to apply pre-control rates, which rates are, under the formula reduced by a percentage intended to represent increased cost. This unduly increased the arrears of maintenance.

The Accountants' Sub-Committee and Government Accountants dissent from this method of calculation and witness is in agreement with the Committee. All companies should be required to calculate increased cost on net and not gross costs.

Witness submits that all debits between abstracts should be made at current prices.

Witness pointed out to the Committee that the mere settling of the account which in some cases have not been completely checked since 1915 is bound to be a lengthy and costly process for the Government and one probably involving protracted proceedings before the Railway and Canal Commission although this Court would be primarily concerned in the construction and interpretation of the documents rather than the consideration of the exceptional War conditions under which the arrangements were made.

APPENDIX IV.

Submitted by SIR GEORGE BEHARRELL.

LETTER TO MR. GURNEY FOWLER REGARDING THE APPOINTMENT OF GOVERNMENT ACCOUNTANT.

(Vide Questions 405, 2098 and 2118 in Minutes of Evidence.)

Board of Trade,
S.W.1.
7th December, 1914.

R. 13232.

SIR,

I am directed by the Board of Trade to advert to the arrangement which, as announced in the Press, has been made by His Majesty's Government with the Railway Executive Committee for the payment of compensation during the period for which Railways in Great Britain have been taken over by the State.

That arrangement is, briefly, that the aggregate net receipts during the period of the Railways concerned are to be compared with a similar aggregate for the corresponding period of the previous year and that the ascertained deficiency is to be the amount of compensation due, subject however to the following proviso, viz.: that, if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency is to be reduced in a like proportion.

The question, therefore, arises as to the scope of the examination to which the accounts of the Companies should be subjected on behalf of His Majesty's Government before payment is made.

The accounts of all Railway Companies are believed to be at present subject to a complete and detailed audit which is entirely independent of the management of the Companies and arrangements will be made under which the statements on which the Exchequer payments are to be claimed will be examined and certified by these independent auditors.

Having regard to the position and standing of the Companies and to this check, the Board are of opinion that payment can properly be made upon such certificates subject to a general scrutiny on behalf of His Majesty's Government of the character referred to below.

The procedure which is contemplated is that in the first place the Companies themselves should prepare drafts of certain Instructions and Schedules for the preparation of the Accounts on lines already indicated to them. When completed these drafts will be submitted to the Government in order that they may be criticised and (if necessary) modified by the Board of Trade who will at this stage consult the expert selected to scrutinise the accounts, and by the Treasury. The Instructions, &c., will then be finally settled and issued through the Companies to their Accountants who will prepare the Accounts on the lines thus laid down. When this has been done, the Accounts will, in due course, be audited by the professional Auditors of the Companies; and they

will then be submitted to the Board of Trade with a view to the final payment of compensation. (The question of interim payments on account is a separate matter which need not now be considered.)

Before being finally passed for payment the certified claims will be referred to a Consulting Accountant whose duty it will be to satisfy himself that the principles laid down in the memorandum have been duly observed and generally to secure proper consideration of the methods adopted more particularly in regard to such matters as depreciation and the allocation of charges between Revenue Account and Capital Account.

The Board contemplate that the Consulting Accountant, while relying in the main on the certificates of the Professional Auditors of the Companies and conducting detailed investigations only if and when questions arise in course of his examination which may appear to make such investigation necessary, should be generally responsible for seeing that the claims are in order.

It is proposed that the Consulting Accountant should receive an inclusive fee of 500 guineas for such period not exceeding twelve months as the present arrangements may continue. Such fee would cover all ordinary out of pocket expenses (which are not expected to be considerable) apart from those of special investigations or detailed audits which if required would be separately arranged for.

The Board would be glad if you would accept the position of Consulting Accountant on these terms.

As already indicated, it is not intended that you should conduct a complete re-examination of all the accounts; but it would be desirable that you should satisfy yourself *prima facie*, that the Instructions, &c., have been duly carried out; and certain points such as the treatment of depreciation and maintenance, transfers to and from special funds, withdrawals of stock, and the allocation of charges for the month of August would require special attention. The correspondence between the Government and the Companies, giving further details, would of course, be placed at your disposal.

Sir William Plender would be willing to act with you in regard to the Accounts of the Companies to which Messrs. Price, Waterhouse and Company act as Auditors.

I am, &c.,

(Sd.) W. F. MARWOOD

J. Gurney Fowler, Esq., F.C.A.
c/o Messrs. Price, Waterhouse & Co.,
Gresham College Offices,
Basinghall Street, E.C.

APPENDIX V.

STATEMENT SUBMITTED BY SIR GEORGE BEHARRELL.

FOURTEEN PRINCIPAL RAILWAY COMPANIES IN GREAT BRITAIN—Summary of Receipts and Payments appearing "below-the-line" in the Published Accounts for the Years 1913 to 1919, excluding Interest and Dividends on Stocks and Shares.

(Vide Questions 609, 2210, 3652 and 3994 in Minutes of Evidence, also Appendix XXIV.)

	1913.	1914.	1915.	1916.	1917.	1918.	1919.
<i>Receipts:—</i>	£	£	£	£	£	£	£
Rents from houses and lands	1,073,994	1,075,579	1,107,893	1,129,104	1,130,955	1,125,023	1,053,635
Rents from hotels	29,942	28,983	29,368	28,111	26,001	27,437	37,879
Other rents, including lump sum tolls	803,347	833,311	817,829	809,354	796,674	880,330	977,386
Interest and dividends from investments in other companies.	410,612	381,696	368,599	384,873	386,667	325,359	421,872
Transfer fees	20,746	18,307	14,607	15,845	15,628	16,462	17,338
General interest	Dr. 33,692	Dr. 152,665	49,660	244,596	552,278	937,917	1,375,923
Joint lines—Receipts and Expenditure other than in respect of railway working (Net).	Dr. 73,557	Dr. 74,384	Dr. 70,179	Dr. 75,194	Dr. 74,832	Dr. 65,798	Dr. 56,154
Sundries	67,068	54,008	63,640	64,599	60,095	67,839	36,667
Total	2,298,460	2,164,835	2,381,417	2,601,288	2,893,466	3,384,569	3,864,546
<i>Payments:—</i>							
Interest on superannuation and other funds	454,204	484,675	514,541	577,717	603,769	655,464	684,736
Rent charges and annuities	219,408	211,017	210,673	210,820	206,481	205,003	205,991
Chief rents and wayleaves, etc.	518,065	518,116	514,091	511,229	501,911	517,470	515,519
Rent of, and guaranteed interest on, Leased, etc., lines...	1,737,263	1,770,464	1,752,270	1,789,979	1,781,538	1,781,974	1,782,391
Interest on Lloyds bonds	38,055	37,138	32,371	25,627	19,681	13,542	11,298
Sundries	17,438	13,872	17,683	20,768	20,660	21,346	22,391
Total	2,984,433	3,035,282	3,041,629	3,136,140	3,134,040	3,194,799	3,222,326
Balance of payments over receipts	Dr. 685,973	Dr. 870,447	Dr. 660,212	Dr. 534,852	Dr. 240,574	—	—
Balance of receipts over payments	—	—	—	—	—	189,770	642,220
Comparison with year 1913:—							
Better	—	—	25,761	151,121	445,399	875,743	1,328,193
Worse	—	184,474	—	—	—	—	—

APPENDIX VI.

Submitted by SIR GEORGE BEHARRELL.

(Vide Questions Nos. 849, 872, 2884, and 2892 in Minutes of Evidence.)

The attached Tables I & II have been prepared at the request of the Committee.

Table I deals with Abstract "A"—Maintenance of Way, Works, &c.

Table II deals with Abstract "B"—Maintenance of Rolling Stock.

These two tables are in similar form, and shew for each of the 14 principal Railways:—

(a) in columns 3 to 5 the 1913 charge for maintenance divided between

(i) Complete Renewal of Running Lines (Abstract "A"). Complete Renewal of Rolling Stock (including Rolling Stock purchased) (Abstract "B").

(ii) Repairs, &c. (i.e., all other actual expenditure in each Abstract).

(iii) Reserves.

(b) In columns 6 to 10 the amounts (calculated at 1913 costs) by which expenditure on

Renewals and Repairs exceeded or fell short of the "standard" during the several periods of control. The "standard" represents the 1913 charge plus allowances for additional units, &c.

It should be noted that the division between "Renewal" and "Repairs, &c." is approximate.

(c) In columns 11 & 12 the Government liability (calculated at 1913 costs) to date—

Column 11 shows the arrears to date.

Column 12 shows the excess to date borne by the Government.

The 14 Railways enumerated account for between 90 per cent. and 95 per cent. of the total and an estimate of the liability (at 1913 costs) in respect of other Railways is brought into a summary at the foot of each table, which also shews the added liability due to increased costs, i.e.:—

	Government Liability for Arrears:—			Excess Borne by Government:—	
	At 1913 costs.	Immediate Liability, i.e. 1913 + 15 per cent.	Total Liability if costs at settlement are 200 per cent. over 1913.	At 1913 costs.	Actual Expenditure Represented.
	£	£	£	£	£
Abstract "A":—					
Renewals	7,291,000	8,385,000	21,900,000	—	—
Repairs, &c.	12,281,000	14,123,000	36,800,000	—	—
Abstract "B":—					
Renewals	12,733,000	14,643,000	38,200,000	—	—
Repairs, &c.	4,321,000	4,969,000	13,000,000	2,605,000	6,000,000
Total Renewals	20,024,000	23,028,000	60,100,000	—	—
" Repairs, &c.	16,602,000	19,092,000	49,800,000	2,605,000	6,000,000
Total	36,626,000	42,120,000	109,900,000 (say 110,000,000)	2,605,000	6,000,000

Table III has been prepared from the details in Tables I and II to shew a comparison of the Government liability (at 200 per cent. over 1913 costs) for arrears of maintenance (Abstracts "A" and "B").

(a) Under existing arrangements (£70,000,000).

(b) If maintenance outlay is limited to 1913 quantum (i.e., "standard").

The difference between the outstanding liability calculated under methods (a) and (b)—about £8,000,000—is the result of setting "excess" (viz., £2,605,000 at 1913 prices—200 per cent. for increased costs) against "arrears."

A statement* was submitted to the Committee on 11th November comparing maintenance expenditure in 1913 with each year of control adjusted to estimated current prices, and this shewed a total excess expenditure of £13,500,000.

The figure of £8,000,000 now submitted should be substituted for this figure. The estimate of

£13,500,000 was prepared on broad lines and before an examination of the individual Companies figures could be made. It was previously impossible to ascertain the effect of:—

(i) New assets (i.e., additional units).

(ii) Excess cost of work normally performed in Company's shops but sent out to contractors owing to congestion. In one Company alone this accounts for £300,000 in the first nine months of 1920.)

NOTE.—While the total figures may be taken as approximately correct there are a number of disturbing factors operating in each direction, e.g.:—

It is assumed that, either each Company will be in arrear on each Abstract as a whole, or the arrears of renewals will be made good in control; and

the additional cost in respect of work sent to Contractors over and above assumed 200 per cent. increase is disregarded.

* Appendix X.

TABLE I.

COMPARISON OF EXPENDITURE ON MAINTENANCE OF PERMANENT WAY AND WORKS (ABSTRACT "A") STANDARD YEAR WITH CONTROL PERIOD. 14 PRINCIPAL RAILWAY COMPANIES.

Company.	Allocation between "Complete Renewals" and "Repairs, &c."	Year 1913. As per published Accounts.			Control Period { Excess + } compared with Standard*					Government Liability @ 1913 costs, 5th Aug. 1914-30th Sept. 1920.	
		Spent.	Reserved.	Total.	5th Aug. 1914, to 31st Dec. 1916.	Year 1917.	Year 1918.	Year 1919.	1st Jan. to 30th Sept. 1920.	Arrears claimed from Govt. (11)	Excess borne by Govt. (12)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
		£	£	£	£	£	£	£	£	£	£
1.	Renewals ...	83,000	25,000	483,000	- 83,000	- 61,000	- 69,000	- 51,000	- 32,000	296,000	
	Repairs, &c. ...	375,000					- 171,000	- 86,000	- 113,000	+ 19,000	- 7,000	358,000
2.	Renewals ...	19,000	—	165,000	- 5,000	- 19,000	- 5,000	- 5,000	+ 14,000	20,000	
	Repairs, &c. ...	146,000					- 76,000	- 42,000	- 40,000	+ 17,000	192,000
3.	Renewals ...	102,000	Cr. 6,000	451,000	- 96,000	- 81,000	- 47,000	- 51,000	- 27,000	302,000	
	Repairs, &c. ...	355,000					- 96,000	- 60,000	- 91,000	+ 6,000	292,000
4.	Renewals ...	130,000	4,000	724,000	- 27,000	- 20,000	- 20,000	- 34,000	- 21,000	122,000	
	Repairs, &c. ...	590,000					- 324,000	- 237,000	- 249,000	- 139,000	- 71,000	1,030,000
5.	Renewals ...	121,000	4,000	655,000	- 67,000	- 140,000	- 119,000	- 110,000	- 44,000	480,000	
	Repairs, &c. ...	530,000					- 40,000	- 75,000	- 107,000	+ 46,000	- 9,000	185,000
6.	Renewals ...	200,000	118,000	1,824,000	- 542,000	- 314,000	- 324,000	- 296,000	- 185,000	1,661,000	
	Repairs, &c. ...	1,506,000					- 814,000	- 622,000	- 634,000	- 486,000	- 133,000	2,689,000
7.	Renewals ...	88,000	11,000	538,000	- 58,000	- 106,000	- 88,000	- 48,000	- 21,000	819,000	
	Repairs, &c. ...	439,000					- 113,000	- 77,000	- 62,000	- 13,000	- 3,000	268,000
8.	Renewals ...	242,000	50,000	1,551,000	- 467,000	- 322,000	- 321,000	- 295,000	- 152,000	1,557,000	
	Repairs, &c. ...	1,259,000					- 458,000	- 426,000	- 406,000	- 71,000	+ 2,000	1,359,000
9.	Renewals ...	106,000	35,000	613,000	- 227,000	- 148,000	- 137,000	- 63,000	+ 24,000	551,000	
	Repairs, &c. ...	472,000					- 165,000	- 83,000	- 91,000	- 51,000	- 93,000	483,000
10.	Renewals ...	49,000	—	341,000	+ 1,000	—	—	—	- 5,000	4,000	
	Repairs, &c. ...	292,000					- 169,000	- 128,000	- 130,000	+ 9,000	+ 69,000	349,000
11.	Renewals ...	181,000	15,000	1,207,000	- 203,000	- 183,000	- 137,000	- 42,000	- 45,000	610,000	
	Repairs, &c. ...	1,011,000					- 383,000	- 324,000	- 362,000	- 279,000	- 76,000
12.	Renewals ...	77,000	Cr. 6,000	483,000	- 52,000	- 79,000	- 72,000	- 4,000	- 13,000	220,000	
	Repairs, &c. ...	412,000					- 106,000	- 41,000	- 34,000	- 42,000	- 67,000	290,000
13.	Renewals ...	148,000	20,000	1,019,000	- 67,000	- 140,000	- 73,000	- 109,000	- 38,000	427,000	
	Repairs, &c. ...	851,000					- 599,000	- 424,000	- 438,000	- 406,000	- 253,000	2,120,000
14.	Renewals ...	100,000	Cr. 4,000	516,000	- 64,000	- 89,000	- 95,000	+ 3,000	+ 23,000	222,000	
	Repairs, &c. ...	420,000					- 192,000	- 72,000	- 80,000	- 28,000	- 45,000
TOTAL, 14 PRINCIPAL COS.	Renewals ...	1,616,000	266,000	10,570,000	- 1,955,000	- 1,702,000	- 1,507,000	- 1,105,000	- 522,000	6,791,000	
	Repairs, &c. ...	8,658,000			- 3,716,000	- 2,706,000	- 2,839,000	- 1,532,000	- 663,000	11,456,000	

* Standard = Total expended and reserved in 1913 with allowances for additional units, &c. For purposes of comparison expenditure during control period has been equated to 1913 level of cost.
NOTE — The division between "Repairs" and "Renewals" is approximate only.

	Complete Renewals.	Repairs, &c.	Total.
	£	£	£
The Government have paid, or are under immediate liability to pay:—			
14 Principal Companies — Arrears (Col. 11) @ 1913 costs	6,791,000	11,456,000	18,247,000
Other Companies do. do. say	500,000	825,000	1,325,000
	7,291,000	12,281,000	19,572,000
Plus — 15 % on u/c of Increased Cost	1,094,000	1,842,000	2,936,000
	8,385,000	14,123,000	22,508,000
If costs ruling at settlement are 200 % in Excess of 1913 there is a further liability of	13,515,000	22,877,000	36,392,000
TOTAL LIABILITY ... say	21,900,000	36,800,000	58,700,000

TABLE II.

COMPARISON OF EXPENDITURE ON MAINTENANCE OF ROLLING STOCK (ABSTRACT "B"), STANDARD YEAR WITH CONTROL PERIOD. 14 PRINCIPAL RAILWAY COMPANIES.

Company.	Allocation between "Complete Renewals" and "Repairs, &c."	Year 1913 As per published Accounts.			Control Period { Excess + } compared with Standard *					Government Liability @ 1913 costs, 5th Aug., 1914-30th Sept., 1920.	
		Spent.	Reserved.	Total.	5th Aug., 1914 to 31st Dec., 1918.	Year 1917.	Year 1918.	Year 1919.	1st Jan. to 30th Sept., 1920.	Arrears claimed from Govt.	Excess borne by Govt.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	Renewals	132,000	37,000	568,000	- 196,000	- 117,000	- 178,000	+ 10,000	- 52,000	533,000	-
	Repairs, &c.	399,000			+ 53,000	+ 3,000	+ 18,000	+ 17,000	+ 70,000	-	211,000
2.	Renewals	114,000	2,000	252,000	- 44,000	- 38,000	- 54,000	- 63,000	- 65,000	264,000	-
	Repairs, &c.	136,000			+ 29,000	+ 14,000	+ 36,000	+ 95,000	+ 135,000	-	309,000
3.	Renewals	185,000	Cr. 23,000	746,000	- 223,000	- 99,000	- 125,000	- 46,000	+ 4,000	489,000	-
	Repairs, &c.	584,000			+ 51,000	+ 32,000	+ 20,000	- 35,000	+ 35,000	-	103,000
4.	Renewals	197,000	-	745,000	- 7,000	-	-	-	-	7,000	-
	Repairs, &c.	548,000			+ 422,000	+ 281,000	- 138,000	+ 210,000	-	849,000	
5.	Renewals	176,000	8,000	651,000	- 363,000	- 188,000	- 215,000	- 286,000	- 162,000	1,214,000	-
	Repairs, &c.	467,000			+ 69,000	+ 24,000	+ 40,000	+ 72,000	+ 44,000	-	249,000
6.	Renewals	336,000	176,000	1,777,000	- 732,000	- 359,000	- 389,000	- 162,000	- 149,000	1,791,000	-
	Repairs, &c.	1,265,000			+ 340,000	+ 254,000	- 268,000	- 31,000	+ 11,000	-	882,000
7.	Renewals	181,000	Cr. 45,000	648,000	- 70,000	- 69,000	- 106,000	- 63,000	- 46,000	354,000	-
	Repairs, &c.	512,000			+ 5,000	+ 45,000	+ 20,000	+ 49,000	+ 83,000	-	192,000
8.	Renewals	595,000	35,000	1,694,000	- 554,000	- 240,000	- 396,000	- 319,000	- 181,000	1,690,000	-
	Repairs, &c.	1,154,000			+ 50,000	+ 26,000	- 10,000	+ 133,000	+ 176,000	-	375,000
9.	Renewals	92,000	70,000	518,000	- 316,000	- 139,000	- 135,000	- 31,000	- 29,000	650,000	-
	Repairs, &c.	356,000			+ 112,000	+ 58,000	- 54,000	+ 18,000	- 20,000	-	226,000
10.	Renewals	70,000	Cr. 1,000	364,000	- 172,000	- 112,000	- 98,000	- 70,000	- 20,000	472,000	-
	Repairs, &c.	295,000			+ 54,000	+ 12,000	+ 30,000	+ 27,000	+ 23,000	-	146,000
11.	Renewals	249,000	204,000	1,621,000	- 660,000	- 417,000	- 365,000	- 370,000	- 51,000	1,863,000	-
	Repairs, &c.	1,168,000			+ 542,000	+ 303,000	- 255,000	- 33,000	+ 7,000	-	1,127,000
12.	Renewals	177,000	9,000	538,000	- 125,000	- 127,000	- 57,000	- 23,000	- 145,000	477,000	-
	Repairs, &c.	352,000			+ 131,000	+ 97,000	+ 61,000	+ 199,000	+ 335,000	-	823,000
13.	Renewals	671,000	96,000	1,866,000	- 498,000	- 578,000	- 509,000	- 370,000	+ 104,000	1,851,000	-
	Repairs, &c.	1,099,000			+ 196,000	+ 170,000	- 72,000	- 12,000	+ 69,000	-	381,000
14.	Renewals	130,000	Cr. 54,000	461,000	- 15,000	- 111,000	- 71,000	- 9,000	- 12,000	228,000	-
	Repairs, &c.	385,000			+ 176,000	+ 91,000	- 118,000	- 62,000	- 6,000	-	453,000
TOTAL, 14 PRINCIPAL COS.	Renewals	3,215,000	514,000	12,449,000	-4,055,000	-2,514,000	-2,698,000	-1,812,000	- 804,000	11,883,000	-
	Repairs, &c.	8,720,000			-1,459,000	- 918,000	- 810,000	+ 299,000	+1,172,000	4,021,000	2,305,000

* Standard.—Total expended and reserved in 1913, with allowances for additional units, &c. For purposes of comparison expenditure during control period has been equated to 1913 level of cost.
 Note—The division between "Repairs" and "Renewals" is approximate only.

	Complete Renewals.	Repairs, &c.	Total.	
The Government have paid or are under immediate liability to pay:—				The Government have also borne "excess" maintenance expenditure amounting to:—
14 Principal Companies—Arrears (Col. 11.) @ 1913 costs	11,883,300	4,021,000	15,904,000	
Other Companies do. do. say	850,000	300,000	1,150,000	14 Principal Companies (Col. 12)
				Other Companies say
	12,733,000	4,321,000	17,054,000	300,000
Plus — 15% on a/c of increased cost	1,910,000	648,000	2,558,000	<u>£2,605,000</u>
	14,643,000	4,969,000	19,612,000	This is calculated at 1913 costs—
If costs ruling at settlement are 200% in Excess of 1913 costs there is a further liability of.	23,557,000	8,031,000	31,588,000	The "Excess" actually expended amounts to
TOTAL LIABILITY say	38,200,000	13,000,000	51,200,000	about
				£6,000,000

TABLE III.

COMPARISON OF GOVERNMENT LIABILITY (AT 200% OVER 1913 COSTS) FOR ARREARS OF MAINTENANCE
(ABSTRACTS "A" AND "B").

(1) UNDER EXISTING INTERPRETATION OF THE AGREEMENTS.

(2) IF MAINTENANCE EXPENDITURE IS LIMITED TO 1913 QUANTUM (i.e., "STANDARD").

Company.	Abstract.	Under existing Agreements.			(2) Limitation of Maintenance Expenditure to 1913 Quantum (i.e., "Standard").	
		Government liability for Arrears at 1913 cost, per Tables I and II. (Col. 11.)	Add—200% for Increased cost.	Government liability for Arrears at 200% over 1913 costs.	Deduct—Excess Expenditure. (Tables I and II, Col. 12) + 200%.	Government liability for Arrears.
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		£	£	£	£	£
1.	A	654,000	1,308,000	1,962,000	—	} 2,928,000
	B	533,000	1,066,000	1,599,000	633,000	
2.	A	212,000	424,000	636,000	—	} 501,000
	B	264,000	528,000	792,000	927,000	
3.	A	594,000	1,188,000	1,782,000	—	} 3,558,000
	B	592,000	1,184,000	1,776,000	—	
4.	A	1,152,000	2,304,000	3,456,000	—	} 6,024,000
	B	856,000	1,712,000	2,568,000	—	
5.	A	665,000	1,330,000	1,995,000	—	} 4,890,000
	B	1,214,000	2,428,000	3,642,000	747,000	
6.	A	4,350,000	8,700,000	13,050,000	—	} 21,069,000
	B	2,673,000	5,346,000	8,019,000	—	
7.	A	587,000	1,174,000	1,761,000	—	} 2,247,000
	B	354,000	708,000	1,062,000	576,000	
8.	A	2,916,000	5,832,000	8,748,000	—	} 12,693,000
	B	1,690,000	3,380,000	5,070,000	1,125,000	
9.	A	1,034,000	2,068,000	3,102,000	—	} 5,730,000
	B	876,000	1,752,000	2,628,000	—	
10.	A	353,000	706,000	1,059,000	—	} 2,037,000
	B	472,000	944,000	1,416,000	438,000	
11.	A	2,034,000	4,068,000	6,102,000	—	} 15,072,000
	B	2,990,000	5,980,000	8,970,000	—	
12.	A	510,000	1,020,000	1,530,000	—	} 492,000
	B	477,000	954,000	1,431,000	2,469,000	
13.	A	2,547,000	5,094,000	7,641,000	—	} 14,337,000
	B	2,232,000	4,464,000	6,696,000	—	
14.	A	639,000	1,278,000	1,917,000	—	} 3,960,000
	B	681,000	1,362,000	2,043,000	—	
Other Companies say	A	1,325,000	2,650,000	3,975,000	—	} 6,525,000
	B	1,150,000	2,300,000	3,450,000	900,000	
TOTAL	A	19,572,000	39,144,000	58,716,000	—	} 102,063,000
	B	17,054,000	34,108,000	51,162,000	7,815,000	
Government liability at 200 per cent. over 1913 costs			... say	110,000,000	... .. say	102,000,000
Less—Paid ... ..			... ..	40,000,000		40,000,000
Outstanding liability			... ..	70,000,000		62,000,000

APPENDIX VII.

Submitted by SIR GEORGE BEHARRELL.
(Vide Question 1020 in Minutes of Evidence.)

	£	1,000,000
First cost of 500 Locomotives in 1913 (£2,000 est.)		1,000,000
Less : 20 Locomotives broken up at £2,000 each	£	
	40,000	
Add : 10 rebuilt in Company's shops at £6,000 each	60,000	
10 rebuilt by outside Contractors at £10,000 each	100,000	
	160,000	
First cost of 500 locomotives in 1919		£1,120,000
Increased First cost 1919 over 1913... ..	£120,000	

APPENDIX VIII.

Submitted by SIR GEORGE BEHARRELL.
(Vide Questions 1179 and 1311 in Minutes of Evidence.)

ABSTRACT A. TRANSACTIONS AS THEY WOULD APPEAR IN THE COMPANY'S ACCOUNTS.

	1913.	1919.
Expenditure.		
Repairs... ..	£49,000	£125,000
Renewals	1,000	5,000
	£50,000	£130,000
Transfer to Depreciation Fund	5,000	4,300
	£55,000	£134,300

EXAMPLE OF THE ARREARS OF MAINTENANCE FORMULA YEAR 1919 APPLIED TO THE ABOVE TRANSACTIONS.

	£	£
(a) Total Expenditure (exclusive of Transfer to Depreciation Fund)		130,000
(b) Add : Credits for Supervision charged to Government	500	
(c) For reduction in mileage of Line Open for traffic	Nil	500
		130,500
(d) Less : Expenditure on work for Government charged to revenue	100	
(e) For Maintenance and Depreciation of New Lines Opened—	£	
Based on 1913 Unit Cost	500	
Add : to equate to 1919 rates 150 per cent	750	
	1,250	
(f) For Maintenance and Depreciation of Other Works	200	
Add : to equate to 1919 rates 150 per cent.	300	
	500	
(g) Additional Expenditure for Abnormal Wear and Tear... ..	Nil	
(h) Special Expenditure for lifting and restoration of Permanent Way due to shortage of materials.	200	
(i) Provision of Temporary Accommodation for Female Staff :—		
1916 £1,000 } Equated to { + 100 per cent.	2,000	
1917 714 } + 75 "	1,250	
1918 200 } + 50 "	300	
	3,550	
(j) Expenditure incurred in respect of holidays granted with pay in excess of those granted with pay in 1913.	600	
(k) Bonus payments made to Supervisory Staff	300	
		6,500
(l) Less : 60 per cent. to reduce to 1913 cost		124,000
(m) Expenditure in year 1919 adjusted for comparison with year 1913		74,400
(n) Total of Abstract " A " year 1913		49,600
(o) Arrears of work		55,000
(p) Add : 15 per cent.		5,400
(q) Amount chargeable for arrears of Work year, 1919		810
(r) Deduct : Transferred to credit of Depreciation Fund—	£	
Reserve in year 1913 for Renewals	5,000	
Expenditure do.	1,000	
	6,000	
Add : For New Line opened	200	
For other works opened	100	
For increased cost of work in year 60 per cent. of £5,000	3,000	
	9,300	
Less : Expenditure in year, 1919	5,000	
		4,300
(s) Net amount to be claimed for Arrears of Work year 1919		1,910
(t) The Government are also liable for the difference between 15 per cent. of arrears as above £810. and actual cost of performing such arrears in excess of 1913 rates, say, 200 per cent. £10,800 or		9,900
(u) Total Government liability		£11,900

APPENDIX IX.

Submitted by SIR GEORGE BEHARRELL.

CHARGES FOR ENGINE POWER IN ABSTRACT A.

(Vide Questions 1182 and 3305 in Minutes of Evidence.)

	If Prices unaltered.	If Prices revised.
	£	£
1920 Charge	3,000	7,500
Less Increased cost 60 per cent. ...	1,800	4,500
Expenditure as adjusted	1,200	3,000
Expenditure as adjusted in 1913 ...	3,000	3,000
Arrears at 1913 rates	1,800	—
Add for Increased cost of performing arrears, say, 200 per cent.	3,600	—
Ultimate overpayment	5,400	—

APPENDIX X.

Submitted by SIR GEORGE BEHARRELL.

(Vide Questions 1273 and 1312 in Minutes of Evidence.)

CONTROLLED RAILWAYS.

ESTIMATE OF EXCESS MAINTENANCE COST (WAY AND WORKS AND ROLLING STOCK)—PERIOD OF CONTROL
COMPARED WITH STANDARD YEAR (1913).

	5th Aug. 1914-31st Dec., 1915.	Year 1916.	Year 1917.	Year 1918.	Year 1919.	TOTAL, 5th Aug., 1914- 31st Dec., 1919.
	GREAT BRITAIN.		UNITED KINGDOM.			
	£	£	£	£	£	£
(1) EXPENDED BY RAILWAY COMPANIES:—						
(a) As published (Cmd. 402, etc.)	35,400,000	27,100,000	32,500,000	40,200,000	55,600,000	190,800,000
(b) Deduct: unexpended renewal provision	3,600,000	3,500,000	4,800,000	5,000,000	4,100,000	21,000,000
(c) Actual Expenditure	31,800,000	23,600,000	27,700,000	35,200,000	51,500,000	169,800,000
(d) Deduct: to reduce to 1915 costs	(7%) 2,200,000	(18%) 4,300,000	(34%) 9,400,000	(50%) 17,600,000	(57%) 29,400,000	62,900,000
(e) Value of actual work performed at 1913 costs	29,600,000	19,300,000	18,300,000	17,600,000	22,100,000	106,900,000
(2) CHARGED BUT NOT EXPENDED BY COMPANIES:—						
(a) Arrears of Maintenance	3,100,000	4,300,000	5,400,000	5,900,000	2,300,000	21,000,000
(b) Add: unexpended renewal provision	3,600,000	3,500,000	4,800,000	5,000,000	4,100,000	21,000,000
(c) Total charged but not expended	6,700,000	7,800,000	10,200,000	10,900,000	6,400,000	42,000,000
(d) Deduct: 15/115ths to reduce to 1913 costs	800,000	1,000,000	1,300,000	1,400,000	800,000	5,300,000
(e) Value of work not performed although charged for (at 1913 costs)	5,900,000	6,800,000	8,900,000	9,500,000	5,600,000	36,700,000
(3) TOTAL AMOUNT CHARGED (adjusted to 1913 costs)	35,500,000	26,100,000	27,200,000	27,100,000	27,700,000	148,600,000
(4) TOTAL AMOUNT CHARGED IN 1913 (STANDARD)	55,500,000	25,000,000	26,200,000	26,200,000	26,200,000	139,100,000
(5) EXCESS MAINTENANCE OVER STANDARD YEAR:—						
At 1913 costs	—	1,100,000	1,000,000	900,000	1,500,000	4,500,000
At actual cost	—	1,300,000	1,500,000	1,800,000	3,500,000	8,100,000
At present prices (200% over 1913)	—	3,300,000	3,000,000	2,700,000	4,500,000	13,500,000

APPENDIX XI.

Submitted by SIR GEORGE BEHARRELL.

(Vide Questions 1285, 1324, 1359, 1485 and 2796 in Minutes of Evidence.)

TABLE 1.

CONTROLLED RAILWAYS—TOTAL (RAILWAY WORKING) REVENUE EARNED : 5TH AUGUST, 1914—31ST AUGUST, 1920 (ESTIMATED).

PERIOD.	TOTAL (RAILWAY WORKING) REVENUE EARNED AS PUBLISHED.	ADJUSTMENT— Estimated Value of 50% on Government Passenger Traffic— 1 Jan. 1917, to 31 March, 1919— not allowed for in published figures.	ADJUSTED TOTAL (Railway Working) Revenue Earned.
(Col. 1).	(Col. 2).	(Col. 3).	(Col. 4).
	£	£	£
GREAT BRITAIN. { 5 Aug.—31 Dec., 1914	47,918,188	—	say— 48,000,000
Year 1915	130,358,044	—	" — 130,500,000
" 1916	145,871,085	—	" — 146,000,000
UNITED KINGDOM. { " 1917	169,701,755	5,000,000	" — 174,500,000
" 1918	183,775,294	6,300,000	" — 190,000,000
" 1919	180,817,848	1,700,000	" — 182,500,000
1 Jan.—31 Aug., 1920	156,355,350	—	" — 156,500,000
TOTAL	£1,014,797,564	£13,000,000	" —£1,028,000,000

NOTES.—1. The results were published as follows :—

Period 5 August, 1914—31 March, 1919—In Cmd. 402.

" 1 April, 1919—31 March, 1920—In Cmd. 815.

" 1 April, 1920—31 August, 1920—In monthly statements supplied to the Press.

2. The amounts which would have been received for Government Traffic, and which are included in the "TOTAL REVENUE EARNED" (Cols. 2 and 4) are as follows :—

	Before adjustment (i.e., as included in Col. 2).	Adjustment (Col. 3).	After adjustment (i.e. as included in Col. 4).
	£	£	£
5 Aug.—31 Dec., 1914	3,500,000	—	3,500,000
Year 1915	10,279,104	—	say 10,300,000
Year 1916	20,649,126	—	" 20,700,000
Year 1917	36,010,759	5,000,000	" 41,000,000
Year 1918	42,494,424	6,300,000	" 48,800,000
Year 1919 (1 Jan.—31 Mch.)... ..	6,602,417	1,700,000	" 8,300,000
Year 1919 (1 Apl.—31 Dec.)	15,427,065	—	" 15,400,000
1 Jan.—31 Mch. 1920	2,837,117	—	" 2,800,000
	£137,800,012	£13,000,000	" £150,800,000

After 31 March, 1920, cash payments were made in respect of Government traffic, and the amount is included in the receipts of the Companies.

TABLE 2.

CONTROLLED RAILWAYS—TOTAL (RAILWAY WORKING) EXPENDITURE : 5 AUGUST, 1914—31 AUGUST, 1920 (ESTIMATED).

PERIOD.	Total (Railway Working) Ex- penditure AS PUBLISHED which includes an addition of 75% over 1918 prices for arrears. Abs. A and B. Amount.	ADJUSTMENTS in respect of Deferred Liabilities not allowed for in published figures, assuming prices ruling are 200% over 1918 level.			ADJUSTED (Total Railway Working) Expenditure.
		Arrears of Maintenance, Abs. A and B. EXTRA cost of making good.	Replacement of Stores.	Abnormal Wear and Tear.	
(Col. 1).	(Col. 2).	(Col. 3).	(Col. 4).	(Col. 5).	(Col. 6).
	£	£	£	£	£
GREAT BRITAIN { 5 Aug.—31 Dec. 1914	31,782,832	2,200,000	2,000,000		say 36,000,000
Year 1915	85,028,262	5,100,000	6,000,000		" 96,000,000
" 1916	95,756,706	8,800,000	6,000,000		" 110,000,000
UNITED KINGDOM { " 1917	113,503,651	11,500,000	6,000,000	No estimate can be made.	" 131,000,000
" 1918	137,136,814	13,600,000	—		" 151,000,000
" 1919	171,469,001	10,800,000	—		" 182,000,000
1 Jan.—31 Aug. 1920	150,030,232	—	—		" 150,000,000
TOTAL	£784,707,498	£52,000,000	£20,000,000†	—	" £856,000,000†

† The correct distribution of the amount in respect of replacement of stores is unascertainable. The allocation shown is arbitrary and it has been assumed for this purpose that the Stores in respect of which there is any liability attaching to the Government were consumed by the end of 1917.

NOTE.—The results were published as follows :—Period 5 Aug., 1914—31 March, 1919—In Cmd. 402.

" 1 April, 1919—31 March, 1920—In Cmd. 815.

" 1 April, 1920—31 Aug., 1920—In Monthly statements supplied to the Press.

TABLE 3.
CONTROLLED RAILWAYS—NET RESULT OF ADJUSTMENTS SET OUT IN TABLES (1) AND (2). (ESTIMATED).

		Results based on published figures.		Results as adjusted.	
		£	£	£	£
RAILWAY WORKING.					
Balance of "Total Revenue Earned" (Table I) over "Expenditure" (Table 2).	5 Aug. - 31 Dec., 1914	16,135,356		12,000,000	
	Year 1915	45,329,732		34,500,000	
	" 1916	50,114,379		36,000,000	
	" 1917	56,198,104		43,500,000	
	" 1918	46,638,480		39,000,000	
	" 1919	9,348,847		500,000	
	1 Jan. - 31 Aug., 1920	6,325,118		6,500,000	
Total			230,090,066		172,000,000
OTHER BUSINESSES.					
Balance of "Revenue Earned" over Expenditure (as published).	5 Aug. - 31 Dec., 1914	146,289		146,289	
	Year 1915	Loss 158,379		Loss 158,379	
	" 1916	" 694,316		" 694,316	
	" 1917	" 1,517,757		" 1,517,757	
	" 1918	" 2,201,372		" 2,201,372	
	" 1919	" 668,628		" 668,628	
	1 Jan. - 31 Aug., 1920	" 706,637		" 706,637	
Total		Loss 5,800,800		Loss 5,800,800	
TOTAL.					
Balance of "Revenue Earned" over Expenditure.	5 Aug. - 31 Dec., 1914	16,281,645		12,000,000	
	Year 1915	45,171,403		34,500,000	
	" 1916	49,420,063		35,500,000	
	" 1917	54,680,347		42,000,000	
	" 1918	44,437,108		36,500,000	
	" 1919	8,680,219		—	
	1 Jan. - 31 Aug., 1920	5,618,481		5,500,000	
Total			224,289,266		say 166,000,000
GOVERNMENT GUARANTEE.					
As published	5 Aug. - 31 Dec., 1914	20,135,000		20,135,000	
	Year 1915	46,130,000		46,130,000	
	" 1916	46,319,000		46,319,000	
	" 1917	48,325,000		48,325,000	
	" 1918	48,391,000		48,391,000	
	" 1919	48,483,000		48,483,000	
	1 Jan. - 31 Aug., 1920	31,590,000		31,590,000	
Total			289,373,000		289,373,000
NET GOVERNMENT LIABILITY	5 Aug. - 31 Dec., 1914	3,853,355		8,000,000	
	Year 1915	958,597		11,500,000	
	" 1916	3,101,063*		11,000,000	
	" 1917	6,355,347*		6,500,000	
	" 1918	3,953,892		12,000,000	
	" 1919	39,802,781		48,500,000	
	1 Jan. - 31 Aug., 1920	25,971,519		26,000,000	
Total			65,083,734		say 123,500,000

* Net Government Surplus.

Notes.—1. The results were published as follows :—

Period, 5 Aug., 1914-31 Mar., 1919—In Cmd. 402.

" 1 Apl., 1919-31 Mar., 1920—In Cmd. 815.

" 1 Apl., 1920-31 Aug., 1920—In monthly statements supplied to the Press.

2. The Irish Railways were controlled from 1 Jan., 1917, and the above figures therefore include :—

Railways in Great Britain for period, 5 Aug. 1914-31 Dec., 1916.

" " United Kingdom " 1 Jan., 1917-31 Aug., 1920.

3. No estimate has been made for Abnormal Wear and Tear claims.

4. Neither the payment to be made for Arrears of Maintenance (other than Abstracts A. and B.) nor the value of services rendered to the Government "free of charge" by steamboats, docks, hotels, &c., up to 31 March, 1919, is ascertainable, but for the purposes of this statement one has been assumed to offset the other.

APPENDIX XII.

Submitted by SIR GEORGE BEHARRELL.
(Vide Question 1526 in Minutes of Evidence.)

REPLACEMENT OF STORES.

	Stock at commencement of control.			Stock at end of control.			Shortage at end of control.		
	Quantity.	Book Rate.	£	Quantity.	Book Rate.	£	Quantity.	Replacement Rate.	£
Rails ...	100	£6	600	80	£10	800	20	£12	240
Fishplates ...	600	10d.	25	600 (actual 1,200)	1s. 8d.	50 (actual 100)	—	—	—
Sleepers ...	100	6s.	30	—	—	—	100	10s.	50
			£655			£850			£290
Due by Government—								£	£
Stock at end of control—"Book Value" ...							850	...	...
Shortage—"Replacement Value" ...							290	...	...
Less: Stock at commencement of control ...							...	655	1,140
									£485

Where the stock at the end of control is in excess of opening stock, the opening quantity only is taken as the closing quantity, as in the case of Fishplates above, as stock in excess of opening stock is outside the arrangement. There is one exception to this—stores bought immediately after Armistice, to prevent unemployment, in accordance with suggestion of Government.

It has also been agreed on various occasions that where stores have been used for Government Works at replacement prices this factor is to be taken into account in determining the Government liability. This will undoubtedly prove to be a substantial sum.

APPENDIX XIII.

Submitted by SIR GEORGE BEHARRELL.
(Vide Question No. 2799 in Minutes of Evidence.)

LETTER, dated 25th November, 1920, from the Railway Companies' Association to the Ministry of Transport, referring to Liabilities of the Government maturing at the end of control.

THE RAILWAY COMPANIES' ASSOCIATION,
53, Parliament Street,
London, S.W.
25th November, 1920.

Sir,

I am directed by the Railway Companies' Association to refer to your letter of the 16th October (F. 2194).

In view of the possible effect upon the cost of wages of the Sliding Scale Bonus and the increasing liability in respect of Local Taxation and Unemployment Insurance, also the uncertainty of the effect which the last increase in Rates and Fares will have upon the quantum of traffic, you will appreciate the difficulty of forecasting whether the Receipts will meet the Working Expenses and the Guaranteed Net Receipts in the Financial Year 1921/22.

The Accountants, however, assure me that they will be in a better position to give an estimate in January next, and we think it will better meet your requirements if steps be taken to let you have this when the results for December have been ascertained. We are arranging accordingly.

With regard to your enquiry as to what sums the Railway Companies anticipate will be required in respect of accrued Arrears of Maintenance to be overtaken in the year 1921/22 after due allowance for the payments already made on account, the Association have no information as to what work in arrear is likely to be carried out between the 5th April, 1921,

and 5th April, 1922, but they are taking steps to obtain approximate figures of cost from the Companies.

It is perhaps right that I should remind you that apart from Arrears of Maintenance carried out during 1921/22 there are other liabilities of the Government which will mature at the end of control, amongst which are:—

- (1) Any liability under the Act of 1871 and/or under the Ministry of Transport Act, 1919.
- (2) The increased cost of Arrears of Maintenance and Renewal Work (Abstracts "A" and "B") outside the above estimate for 1921/22.
- (3) The Arrears of Maintenance and Renewals in respect of Abstracts other than "A" and "B."
- (4) The increased cost of a similar quantity of Stores to those on hand at 4th August, 1914.
- (5) Abnormal Wear and Tear not made good during the period of Control.

I am, Sir,
Your obedient Servant,
(Sgd.) ARTHUR B. CANE,
Secretary.

The Secretary,
Ministry of Transport,
6, Whitehall Gardens, S.W.1.

APPENDIX XIV.

Statement submitted by SIR ALEXANDER GIBB.

I. The statement submitted deals with the Railway Agreement only in so far as it relates to matters affecting engineering. It does not traverse all the interpretations put upon the Agreement which operate unfairly against the Government. The few examples given of cases which involve large amounts show the necessity for revision and a careful scrutiny of the present interpretations of the Agreement from beginning to end.

The data and reasons upon which the statements and opinions given hereafter have been founded are given at full length in the Appendices.

II. Conclusions.

The conclusions reached are:—

- (1) That the financial arrangement between the Government and the railway companies is as set forth in Sir Herbert Walker's letter to the President of the Board of Trade dated 6th August, 1914.
- (2) That all interpretations thereof should be in harmony with this basic agreement of 6th August, 1914.
- (3) That many of the present interpretations are not in harmony with the true intention of the Agreement.
- (4) That as these interpretations were made to meet the circumstances which existed at the time they were arrived at, they can only be regarded as a "war expedient" and ought now to be modified to meet the changed circumstances.
- (5) The general conviction reached after working upon the interpretations to the Railway Agreement made from time to time, especially the later ones, is that they incline towards a "betterment of bargain" in favour of the railway companies.
- (6) That the total expenditure on maintenance and renewal of all the controlled railways should be limited to the 1913 quantum.
- (7) That the onus of proof for any extra payment for such claims as abnormal wear and tear due to Government control should rest on the railway companies.

III. Agreement.

(Cf. pp. 3 to 8 of Appendix XIVa.)

Whether the Agreement of 6th August, 1914, was on the whole fair and reasonable alike to both parties, or not, it had the following advantages to the railway companies from an engineering point of view:—

- (1) The basis year 1913 was a specially advantageous one. According to the Board of Trade Blue Book the net receipts for the year 1913 exceeded the average of the nine previous years by £7,000,000, which after making allowance for interest on additional capital may be reduced to £6,000,000. Taking the seven years' control, this gives an advantage to the railway companies of approximately £40,000,000, or nearly 11 per cent. on the net receipts. It almost invariably happens that in a good year more money than usual is spent on repairs, renewals, &c., and it is more than probable that this was the case in 1913.
- (2) The railway companies are entitled to their 1913 quantum for maintenance of way, works and rolling stock. As many repairs and renewals similar to those carried out in 1913 (e.g., painting of stations, bridges, &c.), could not be done during the war and will not now have to be undertaken to the same extent, the 1913 quantum of maintenance for each year of control is an advantageous one.

IV. Defects and Possible Remedies.

(Cf. pp. 8 to 14 of Appendix XIVa.)

The following are examples of interpretations unfairly acting against the Government with certain suggested remedies:—

1.—(A) (Cf. page 8 of Appendix XIVa.) There is no limitation to the 1913 quantum of the expenditure on repairs and maintenance of way, works, plant and equipment, or on partial renewals of these. This means that the railways can spend what they like on all these works and the Government have to pay for it in the net receipts guaranteed.

(B) (Cf. page 8 of Appendix XIVa.) The limitation of renewals of permanent way and rolling stock to the 1913 quantum can be easily circumvented. This can be done by executing complete renewals piece-meal and classifying the work as partial renewals. The Government would, in this case, have to pay unlimited costs as shown in (A).

The suggested remedy for the above two cases is to limit the whole expenditure on way, works, plant and equipment to the 1913 quantum, as was undoubtedly intended by the Agreement of the 6th August, 1914, and to fix a definite time in which to overtake arrears.

(C) (Cf. page 8 of Appendix XIVa.) Not only have the Railway Companies been allowed the increased cost of new rolling stock over 1913 prices, but they interpret the instructions as giving them a percentage (say 5 per cent.) of the increased cost of such rolling stock over their 1913 total cost on the plea that replacement at the enhanced prices of rolling stock has to be provided although it is the Government who have paid for this addition.

The suggested remedy is to adhere to the obvious intention of Clause 4 as amended of the Memorandum of Instructions (Blue Book) and disallow the item.

A rough approximation of the estimated extra cost to the Government if these three suggested alterations are not made is £15,000,000. (This is for the same saving as the £15,000,000 in par. 2.)

2. (Cf. page 9 of Appendix XIVa.) The original Agreement provided that the whole of the Railways were to be regarded as a collective entity. This principle has not been adhered to in regard to Arrears of Maintenance of Way and Works (Abstract "A") and Rolling Stock (Abstract "B"), where not only is each Company dealt with individually, but each Abstract is considered separately.

The result is that the Government pays for all excess work over the 1913 quantum on each Abstract which may be in excess, and has also to make up the arrears on each Abstract which may be in arrear at prices to be ascertained at the end of control, a payment on account being made in the meantime.

A very rough estimate of the amount involved in this item is £15,000,000 (same item as para. 1).

The suggested remedy is to cancel the interpretation and limit the total payment by the Government for Maintenance and Renewal of Way, Works and Equipment to the 1913 quantum of all the Companies. If this course is taken then although the present arrangements for payment in (A), (B) and (C) of the preceding clause were allowed to continue, the Government could still save what might amount to £15,000,000 because the amounts in excess in the case of some companies would be charged against the arrears of other companies.

3. (Cf. page 9 of Appendix XIVA.)
- (a) (Cf. page 11 of Appendix XIVA.) The percentage arrived at in the manner prescribed in the Arrears of Maintenance formula to reduce the cost of work carried out in the control period to its 1913 equivalent, does not give a correct result, because it leaves out the important element of credits for re-covered materials, i.e., scrap, etc., and is applied to figures representing items of a different nature and composition. This means that the amount of deferred work under Abstracts "A" and "B" in any year, calculated by the formula will be greater than it should be, and as the 1913 amount will have to be multiplied by a co-efficient of probably between 3 and 4 to bring it up to prices current when the work is executed, the loss to the Government may be very considerable.
- (b) (Cf. page 12 of Appendix XIVA.) Important items, such as Engine Power, etc., charged in Abstracts "A" and original cost of property displaced debited to Revenue, which are included in the Accounts for the Control period at *pre-war costs* are subject to a deduction in respect of increased cost before comparison with the 1913 standard.
- (c) (Cf. page 13 of Appendix XIVA.) The provision that 80 per cent. of each of the three groups into which the Materials used on Abstract "A" work are divided in the Arrears of Maintenance Instructions has not been adhered to by all the Railway Companies.
- (d) (Cf. page 13 of Appendix XIVA.) The 80 per cent. (in value) of materials issued and used is not a fair loading if companies can choose their materials and limit themselves to 80 per cent.

The suggested remedy for the above four items is to work out a correct coefficient by taking all factors which are at present omitted into consideration.

A rough approximation of the extra cost to the Government if these alterations are not made is £14,000,000.

4. (Cf. page 14 of Appendix XIVA.) There is no incentive to economy on the part of the Railway Companies, because their 1913 Net Receipts being guaranteed, any expenditure "above the line" falls on the Government; the latter has at the moment no efficient check on such expenditure. The importance of this will be realised when it is stated that on an approximate rough estimate of the total expenditure of the Railway Companies for the Seven years of control, viz.: £1,200,000,000, even 5 per cent. gives £60,000,000.
5. (Cf. page 14 of Appendix XIVA.) As the Ministry of Transport has, with the advice of the Rates Advisory Committee increased both rates and fares with a view to meet the increased expenditure due to the economic conditions now prevailing, including the increased cost of Stores, the Railway Companies do not appear to be entitled to receive from the Government a payment which will put them in the position of having at the end of the control period the same quantity of Stores on hand as they had at 4th August, 1914, at pre-war prices especially as that will give them the additional advantage of being able to realise the high market prices from the serviceable and scrap materials to be recovered from their Way and Works when the low-priced materials are used on Maintenance and Renewal.

The suggested remedy is that a new arrangement should be made. The stores arrangement was entered into in 1916 to meet the circumstances then ruling; as these circumstances have completely changed and the railway companies have a *quid pro quo*, the Government may fairly claim that they (the railway companies) should not be paid for the increase in the stores twice over.

In any event the railway companies are not entitled to the enhanced value of the credits from recovered materials corresponding to the quantity of stores on hand at pre-war prices.

If the arrangement is revised as suggested above, the saving to the Government is estimated at £20,000,000. The enhanced value of the recovered materials over pre-war prices is estimated at £5,000,000.

V. Justification for revising the interpretation of the Agreement.

There appears to be ample justification for re-opening and revising the interpretations of the Agreement in all the cases mentioned in para. IV. Dealing with these in turn:—

Paragraph IV. (1) (a) and (b).

At the time these interpretations were made there promised to be such a shortage of man power in the country that it would have been virtually impossible for the railway companies to exceed the 1913 quantum to any appreciable extent; in fact, if the whole of the railways had been dealt with as an entity it would have been absolutely impossible. At the present time, however, when the number of unemployed is increasing daily, there is every opportunity and encouragement for railway companies to spend money on improvements of their way, works, plant and equipment, more especially if the Government are paying for it.

The whole spirit and intention throughout the interpretation shows that the predominant consideration was to safeguard the railway companies in the event of their not being able to overtake their maintenance work. There was at the time no possibility of railway companies being able to get into excess and further it must be remembered that the railways were in possession of the Government on a weekly warrant and no one contemplated that control would continue after the war, as at that time Mr. Runciman's letter of 5th September 1916, had not been written.

Paragraph IV. (1) (c).

As regards the practice of railway companies to charge the Government a percentage of the increase in the cost of rolling stock as a depreciation item while at the same time they are being paid for the whole of the increase in Abstracts A and B; at the time this was introduced there could have been no thought in the minds of the parties that this matter would be so treated or that prices would soar to their present high level; further, what in the early part of the war might have been a negligible factor, owing to the abnormal and unprecedented rise in prices and the fact that rolling stock can now be built to an extent far exceeding that in war-time, has now become an important item. Moreover, it cannot be seen that the present interpretation of the Agreement could ever have been regarded as fair or as carrying out the spirit of the Agreement.

Paragraph IV. (2).

With regard to the railways being dealt with individually instead of collectively, the same remarks apply as in paragraph IV. (1) (a) and (b). At the time this interpretation was given there was a great scarcity of men, now there is a surplus.

Paragraph IV. (3).

The method of arriving at the co-efficient by which each controlled year's cost of work charged to Abstracts A and B was to be multiplied in order to reduce the cost to 1913 values, *i.e.*, taking 80 per cent. of materials only and not taking into account other elements, such as scrap, engine power, etc., which are intimately involved, was probably agreed to because it was considered to be a quick, if rough-and-ready method of obtaining the results required. If any more complex method had been employed it would have either thrown extra work on an already depleted staff, or extra clerks would have been required, which would have reduced the number of staff available for the fighting lines, and for national service.

As there is no shortage of staff at the present day there seems to be no reason why this temporary method, which has proved to be inaccurate, should not be replaced by an accurate method which carries out the true intent of the Agreement.

Paragraph IV. (4).

Whereas during the war it would have been very difficult for a railway company to be extravagant on account of the shortage of men and materials, circumstances are now entirely altered. It should be remembered that a form of Agreement which was more or less innocuous during the war, may in the present normal times become very dangerous and this factor should be borne in mind in dealing with the whole situation.

APPENDIX XIVA.

Appendices to Statement submitted by

Sir ALEXANDER GIBB.

NOTE.—*The numbers and letters at the head of each section refer to the corresponding numbers and letters in Appendix XIV.*

AGREEMENT.

(*c.f. Sections I-III of Appendix XIV.*)

The principal railways in Great Britain were taken over by the Government as from midnight 4th-5th August, 1914, under the Regulations of the Forces Act, 1871, and placed under the instructions of a Railway Executive Committee. It was speedily felt both by the Railway Executive Committee and the Government that from all points of view the question of the compensation due to the railway companies under Section 16 of that Act should be settled immediately. The "Net Receipts" agreement was accordingly drafted on broad lines on the 6th August, 1914, as follows:—

F. 175. Railway Executive Committee,
35, Parliament Street,
Westminster, S.W.
6th August, 1914.

Dear Sir,

The Executive Committee has received from Mr. Marwood an intimation that the Government are prepared to agree that the question of the compensation to the Railway Companies, arising under the Act of 1871, should be adjusted on the following basis:—

To ascertain the compensation payable the aggregate net receipts of all the Railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year. The ascertained deficiency shall be the amount of compensation due. Provided that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency shall be reduced in the like proportion. Any question as to the amount of the deficiency shall, in default of agreement, be determined by the Railway and Canal Commission.

I have to inform you that the Executive Committee have resolved to recommend to the Companies, whose Boards will be summoned at the earliest possible moment, the acceptance of this proposal.

Yours faithfully,
(Signed) H. A. WALKER,
Acting Chairman of the Railway
Executive Committee.

The President,
Board of Trade.

Two days later, the Railway Executive Committee (Circular Letter No. 10 of 8th August, 1914) recommended all the controlled railway companies to accept it stating they were satisfied the basis of compensation

accepted by the Government was not only just but generous, and that any difficulties in detail in giving effect to the Agreement would be subsequently dealt with by a Sub-Committee of Accountants. On 13th August, 1914 (Circular Letter No. 19), the Railway Executive Committee advised the controlled railway companies that practically all the companies had accepted the Agreement and gave the broad idea underlying it. Sir Herbert Walker's letter of 9th August, 1914, and the Railway Executive Committee's Circular Letter (No. 19) of 13th August, 1914, as under, show the interpretation of the Agreement in the minds of the Railway Executive Committee at the time the Agreement was completed:—

F. 175. Railway Executive Committee,
35, Parliament Street,
Westminster, S.W.
9th August, 1914.

Dear Sir,

We understand from the statements you made to us to-day that there is some apprehension on the part of the Advisers of the Government that advantage may be taken by some companies of the settlement provisionally come to with the Government as to the basis of compensation under Section 16 of the Regulation of Forces Act, 1871, to spend abnormal sums out of revenue on the maintenance and renewal of their lines and stock.

I have to say that while the Executive Committee cannot believe that any Company would be capable of acting in such a manner, they have from the first regarded it as an obligation of honour to protect the Government against the possibility of such an event, and they had before your visit already taken steps to safeguard the position of the Government in this respect.

Yours faithfully,
(Signed) H. A. WALKER,
Acting Chairman, Executive Committee.
The President,
Board of Trade.

Instruction No. 19.
Railway Executive Committee,
35, Parliament Street,
Westminster, S.W.
13th August, 1914.

Dear Sir,

The Executive Committee are pleased to be able to announce that practically all the companies whose railways have been taken over by the Government have agreed to the proposal outlined in my letter of the 8th instant, under which the Government guarantee the net receipts of the railways collectively.

It is hardly necessary to point out that the arrangement is one which, in spite of its great convenience both to themselves and the companies, the Government could not have agreed to, had they not been assured of the absolute good faith of the Companies, and had they not felt certain that they could rely on all officers of the companies concerned acting loyally up to the spirit of the arrangement.

Broadly speaking, the idea underlying the arrangement is that the financial results to each company for the period of Government control shall be the

same as if the railways had remained under the control of the companies and the receipts and expenses of each railway had been the same as they were in the corresponding period of the previous year, subject to a deduction proportionate to any falling off in net receipts disclosed by the accounts of the companies as a whole for the first half-year of 1914. The result is that, during the period of Government control *the advantage of all economies will enure to the benefit of the Government*, and, correspondingly, the whole burden of expenditure will fall on them.

This state of things obviously imposes an honourable obligation upon the companies to see that *all proper economies are made, and that no abnormal or unnecessary expenditure is incurred.*

The new position thus created will give rise to many questions of detail, and the executive committee have asked a Committee of Accountants to consider these and to make recommendations on the subject for the guidance of the companies concerned, but they think it may be helpful if they indicate now one or two points of general application.

It may be that on the lines of some companies traffic will fall off considerably and there will not be work for all the companies' employees. In such cases it would obviously be unfair to keep on unnecessary men at the expense of the Government. On the other hand, the Government may be anxious, from a national point of view, to avoid adding to the unemployment in the country; and, the line of action to be taken therefore, is clearly one for the Government to lay down, and the Executive Committee are in communication with them on the subject.

In the meantime, the Executive Committee will be glad if you will communicate with them if you feel in doubt as to the course to be taken with regard to any considerable body of men for whom you have no work or not full work. The allowances to the families of men called out for active service involved a similar question upon which you have already been advised.

Again, it may be found that certain trains have become unnecessary or have ceased to be remunerative. In these cases the Government will naturally expect each Company to reduce its train service from time to time so far as it can reasonably do so.

Then again, questions may arise as to the amount to be expended on the maintenance and renewal of way and works, or rolling stock. Under these heads it will not be open to a Company to include in its working expenses *any greater sum than is required to maintain its works and plant in an efficient condition, including due allowance for renewals, and if the expenditure of any Company upon any item of maintenance exceeds the corresponding figure in the previous year, the Government will no doubt, in the absence of special justification, expect it to be shown that the additional expenditure was rendered necessary by their requirements, or by the exceptional character or quantity of the traffic carried during the period of Government control.* This point has been definitely raised by the Treasury, and the Executive Committee have had no hesitation in giving an assurance, on behalf of all the Companies taken over, that *no unfair advantage will be taken of the present situation in connection with the renewal of works or plant.*

All these and similar questions will be considered in detail by the Accountants, but it is thought well by the Executive Committee to indicate at the outset the general features of the new situation, and to let the Companies know what the Government are looking to them to do.

Yours faithfully,

(Signed) H. A. WALKER,

Acting Chairman, Executive Committee.
The General Manager,
Railway.

(The letter of the 8th inst. referred to above was addressed to your Secretary.)

The basis year, 1913, was a specially advantageous one for the Railway Companies. On page xvii. of the Blue Book of Railway Returns for 1913, issued by the Board of Trade in 1915 (Cd.8038), it is stated:—

"It is clear, however, from the statistics available, that in 1913 the railway companies en-

"joyed a considerable measure of prosperity. "From the shareholders' point of view one of the "best indices of the net result of railway working in a particular year is that afforded by the "statistics showing the average rate per cent. "per annum of the dividend paid by the companies collectively on their ordinary capital. "During the nine years ending 1912 the average "rate paid on the total ordinary capital (exclusive of nominal additions), whether ranking "for dividend or not, was 4.08 per cent., the "highest annual average being 4.45 in 1911, and "the lowest 3.67 in 1908. The average for the "year 1913 was 4.60. The basis of the rate was "slightly altered as between 1912 and 1913, but "the alteration does not appreciably affect the "comparison."

The Net Income of the Railways in the United Kingdom for the year 1913 is shown on page xii. of the same book as £52,131,000, and the average net Receipts for the ten previous years (see page xxxiv.) works out at £44,973,000, or a difference of roughly £7,000,000, which after making allowance for interest on additional capital during the period may be reduced to £6,000,000. Taking the seven years of Control, this gives an advantage to the Railway Companies of approximately £40,000,000, or nearly 11 per cent. per annum of the net Income for 1913.

According to Board of Trade Statistical Returns from 1903 to 1917, issued in 1919 (Cd.491), the total imports for 1913 amounted to £768,734,739, against £623,306,890, the average of the previous ten years, being an increase of £145,427,849, or 23 per cent., while the total exports for 1913 amounted to £634,820,326, against £473,387,857, the average of the previous ten years, being an increase of £161,432,469, or 34 per cent.

It almost invariably happens that in a good year more money than usual is spent on repairs, renewals, etc., and it is more than probable that this was the case in 1913.

The railway companies are entitled to their 1913 quantum for maintenance of way, works and rolling stock. As many repairs and renewals similar to those carried out in 1913 (e.g., painting of stations, bridges, etc.) could not be done during the war and will not now have to be undertaken to the same extent, the 1913 quantum of maintenance for each year of control is an advantageous one.

INTERPRETATIONS OF THE AGREEMENT FROM AN ENGINEERING POINT OF VIEW.

(1) Memorandum of Instructions (Blue Book).

Between August, 1914, and January, 1915, the detailed arrangements to give effect to the Agreement were worked out by the Sub-Committee of Accountants appointed by the Railway Executive Committee and the Board of Trade. These are embodied in a Blue Book entitled:

"Memorandum of Instructions to Railway Companies for the preparation of the Accounts "to be presented by each Controlled Company "to arrive at the amount of Compensation payable by His Majesty's Government."

This Book was issued with the authority of the Treasury to the controlled railway companies in March, 1915. Apart from the recital of the Agreement and the definition of the term "net receipts" in Clauses 1 and 2, the only clauses in the "Blue" Book which are of importance from an engineering point of view are the following:—

Clause 4.

"The expenditure chargeable for the control "period must be ascertained as far as it is possible to do so, with the proviso that *the amount charged for the renewal of permanent way and rolling stock is not to exceed the amount included in the corresponding period of 1913, except under special circumstances, such as additions to the length of line opened, additions to rolling stock in service, or an increase in the cost of renewal work carried out during the period resulting from increased price of labour and materials.*"

Clause 4 (c).—Provisions for Estimated Expenditure. Liabilities.

" In determining the amount of revenue expenditure for the control period, each company must follow strictly the method which regulated the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913. Particularly should this principle be observed in setting up reserves for depreciation or provisions for maintenance of locomotives, carriages and wagons, permanent way, bridges, stations, etc."

It soon became apparent to the Railway Executive Committee that Clause 4 was operating unfairly as between " Programme " and " Non-programme " companies, because under Clause 4 (c) companies which had a programme of renewals in 1913 could charge in their accounts their corresponding programme of renewals in the control period up to the 1913 standard whether the work was carried out or not, while Non-programme Companies could only charge the cost of Renewals actually performed, notwithstanding the fact that owing to the shortage of labour and materials due to the war, they found it impossible to accomplish their 1913 renewal standard. The Railway Executive Committee therefore approached the Government Auditors, and on 28th September, 1916, the following agreed interpretation of Clause 4 in the Blue Book was issued to the controlled Railway Companies, with effect from 1st January, 1915.

" MEMORANDUM OF INSTRUCTIONS TO RAILWAY COMPANIES FOR THE PREPARATION OF THE ACCOUNTS TO BE PRESENTED BY EACH CONTROLLED COMPANY TO ARRIVE AT THE AMOUNT OF COMPENSATION PAYABLE BY HIS MAJESTY'S GOVERNMENT.

" Scheduled to Railway Executive Committee
" Instruction No. 214.

" Agreed interpretation of Article 4 so far as it relates to the amount chargeable for the control period in respect of the renewal of permanent way and rolling stock—

" All companies are entitled to include in their Abstracts of Expenditure, A and B, in respect of the renewal of permanent way and rolling stock respectively, an amount equal to, but not exceeding, the amount so charged in the corresponding period of 1913, together with such additional sums as

- (1) may be necessary to make provision for the renewal of
 - (a) additional mileage of line, or
 - (b) additional units or increased first cost of rolling stock in service;
- (2) may be attributable to increased rates of pay or prices of materials paid in respect of renewals carried out during the period and chargeable against the Government.

" It is recommended that the agreed interpretation should take effect as from 1st January, 1915, and that any necessary adjustment of the claims for the year 1915 should be made the subject of a supplementary claim."

This interpretation put Programme and Non-programme Companies on practically the same level so far as renewals of permanent way and rolling stock were concerned. As from the year 1916 the railway companies charged the Government with the increased cost over 1913 prices of renewals carried out in excess of the 1913 standard of renewals. The railway companies also discovered that the Blue Book made no provision for the depreciation and maintenance of additional works and plant other than permanent way and rolling stock brought into use during and subsequent to 1913. On 9th September, 1920, the Ministry of Transport and the Treasury approved of percentage rate for depreciation and maintenance of these additional works, etc., and these rates were issued to the railway companies on 13th September, 1920, with effect from 5th August, 1914.

(2) ARREARS OF MAINTENANCE AND RENEWAL OF PLANT AND EQUIPMENT.

(a) Way Works and Stations (Abstract A) and Rolling Stock (Abstract B).

(Yellow, Heliotrope, Green, and Brown Books.)

The Net Receipts Agreement had only been two months in operation when the Railway Executive Committee on 27th October, 1914, intimated to the Board of Trade that as the result of their Locomotive Carriage and Wagon Shops being placed at the disposal of the Government for the manufacture of articles urgently required by the War Office or Admiralty, the Railway Companies' usual repair and renewal work was necessarily postponed and that sooner or later the Companies might have to include in their claim against the Government a sum to cover the cost of the work which was so deferred and which would have to be overtaken. Early in 1916, it was agreed between the Government and the Railway Companies that payment should be made monthly in respect of the ultimate cost of carrying out the arrears of repairs and renewals arising during the Government Control period, so far as Abstracts A and B were concerned. The Government further agreed that for the Control period from 5th August to 31st December, 1914, and for the year 1915, an addition of 12½ per cent. might be made to the arrears to cover increased outlay which might have to be incurred when the arrears of work were ultimately carried out. Separate claims for arrears had to be made in respect of Abstracts A and B. The basis of the Claim for Arrears was the amount by which the expenditure in the Government Control period fell short of the total of the Abstract for the corresponding period of 1913, after making allowance for

- (1) the difference between rates of wages and between prices of materials in the two periods;
- (2) any increased cost due to additional length of line opened or additions to rolling stock in service;
- (3) any additional expenditure incurred during the period of Government Control as the result of abnormal wear and tear during such period.

The relative instructions for the period from 5th August, 1914, and for the year 1915, were printed in a " Yellow " Book and issued by the Railway Executive Committee to the controlled Railway Companies with Circular Letter No. 483, dated 25th January, 1916. These instructions are very complicated and are also highly technical, involving an expert knowledge of engineering as well as thorough grasp of " costing." The " Yellow " Book is printed in *extenso* on pages 59-63 of the Volume of " Principal Letters and Documents relating to the General Railway Agreements (Great Britain)." On 3rd April, 1916, the Railway Executive Committee issued with their Circular Letter No. 536 a " Heliotrope " Book (see pages 64-71 of the volume above referred to),* giving an example of the application of the instructions contained in the " Yellow " Book, together with further detailed particulars of the method to be adopted by each Company for arriving at the allowance for increased rates of wages and prices of materials.

It was understood by both parties to the agreement that the payments made by the Government in respect of arrears of work on Abstracts A and B for the Control period of 1914 and for the year 1915, including the 12½ per cent. addition in respect of increased costs were in full settlement of the claims for these two periods. It was subsequently found by the Railway Executive Committee owing to the prolongation of the period of control and the uncertainty as to its duration, that this settlement in full was unbusinesslike and very uncertain in its operation because it was obviously impossible to fix a figure fair alike to the Railway Companies and the Government in respect of the increased cost of repairs at the date they would ultimately be carried out. It was therefore suggested that the payments made for the period up to 31st December, 1915, should be treated as a payment on account only. The Treasury, on 26th June, 1917, agreed to re-open the question as

* Appendix I.

from the commencement of the control and to regard all payments hitherto made, including those in respect of 1914 and 1915, as payments on account.

In the "Green" Book, issued with the Railway Executive Committee's Circular Letter No. 1400, the following interpretations were issued:—

- (1) that the addition to be made to the arrears on account of the increased outlay which may have to be incurred when the arrears of work are ultimately carried out should be at the rate of 15 per cent. over the whole control period;
- (2) that no Company would be entitled to retain or receive any amount in respect of Arrears of Maintenance unless there were arrears of work for the whole period of control. Those Companies which were in excess at the end of one year and in arrear at the end of the next, have to deduct the amount in excess from the amount in arrear. Similarly, those Companies which were in arrear at the end of one year and in excess at the end of the next, have to refund the amount of such excess, with the proviso that the amount so refunded does not exceed the amount received by the Company in respect of the arrears to the end of the previous year. Abstracts A and B are each dealt with separately for the purpose of these adjustments.

The "Green" Book embodying these amendments also contained the following modifications of the instructions in the "Yellow" Book in their application to the arrears claim for the year 1916:—

Clause 2 ("Green" Book).

New Lines Opened and Additions to Rolling Stock in Service.

The instruction in the "Yellow" Book in regard to "Programme" and "Non-programme" Companies (Clause 4) (e) was amended to put both classes of companies on the same footing in accordance with the agreed interpretation of Clause 4 of the "Blue" Book (see page 5 above).

Clause 3 ("Green" Book).

Reduction in Numbers of Rolling Stock in Service.

If the numbers of rolling stock in service at 31st December of a control year were less than the numbers in service at 31st December, 1913, an adjustment to be made in the expenditure to give effect to this disparity in numbers unless it can be shown that the capacity or first cost of the rolling stock in service at the end of the control year is not less than the capacity or first cost of the vehicles existing at the end of 1913. Engines, carriages and wagons to be dealt with separately for the purposes of this adjustment.

Clause 4 ("Green" Book).

Rolling Stock Built or Repaired otherwise than in the Companies' Workshops.

As the additional cost of renewing and repairing rolling stock by contractors, instead of in the companies' workshops as was the pre-war practice, would not be represented by the percentage for increased cost of work done arrived at in accordance with the instructions, such additional cost was to form the subject of a separate adjustment.

In the "Yellow" Book this concession was limited to rolling stock built by contractors, but in practice it is understood that the extra cost of repairing rolling stock by contractors in 1915 was also allowed.

Clause 5 ("Green" Book).

Additional Renewal or Depreciated Provisions other than in respect of New Lines and/or Rolling Stock.

This instruction appeared in the "Green" Book in 1918, although the detailed percentages for arriving at the depreciation of the property

concerned were not finally adjusted until September, 1920. It was apparently agreed in principle in 1918 that the companies were entitled to this depreciation under the "Net Receipts" Agreement, and as a transaction in Abstract A or B under that Agreement affects the financial results under the "Arrears" Agreement, provision was made in the "Arrears" instructions for 1916 to bring the "Arrears" claims in this respect in line with the "Net Receipts" claims

Clause 6 ("Green" Book).

Special Expenditure incurred in the Lifting and Restoration of Permanent Way due to Shortage of Materials.

In cases where a company, owing to the shortage of materials, lifted rails, etc., from a less important to a more important section of the line, the additional expense incurred was to form the subject of a special adjustment for arrears of maintenance purposes.

Clause 7 ("Green" Book).

Transfers to or from Depreciation Funds or Suspense Accounts.

Under the 1915 formula, renewal expenditure in excess of programme and chargeable against the companies' own funds, had to be deducted from the commencing figure in the formula. In 1916 the renewal expenditure in excess of programme and chargeable against the companies' own funds was adjusted at the foot of the formula, the difference being that in 1915 the railway companies bore the total cost of the excess work, while in 1916 they only bore the 1913 cost, the increased cost over 1913 being borne by the Government.

Clauses 9 to 12 ("Green" Book).

Allowance for Increased Rates of Wages and Materials.

These clauses are in the main, with one exception, the same as the supplementary instructions contained in the "Heliotrope" Book for 1915, with some verbal alterations to suit the altered conditions of the following years. The exception is in regard to the method of arriving at the minimum of 80 per cent. (in value) of the materials used in Abstract A, and the instructions for 1915 and 1916 are shown below in parallel columns:—

1915.	1916.
<p><i>Abstract A.—Materials.</i></p> <p>In determining the minimum of 80% (in value) referred to in the Instructions, the gross debit for the materials issued and used at the actual issue prices—i.e., before taking credit for scrap materials returned—should be adopted as the basis for the total value of the materials mainly charged to Abstract A, divided into the following groups:—</p> <ol style="list-style-type: none"> (1) Permanent Way Materials (including Electric Track Equipment). (2) Signal and Telegraph Materials. (3) Sundry Materials.—Stations, Building Roads and Bridges, and all other materials not coming under (1) or (2). 	<p><i>Abstract A.—Materials.</i></p> <p>In determining the minimum of 80% (in value) referred to in the Yellow Book, the gross debit for the materials issued and used, at the actual issue prices—i.e., before taking credit for the amount dealt with in respect of scrap materials returned—should be adopted as the basis for the total value of the materials mainly charged to Abstract A. So far as possible, the materials selected for the year 1916, should correspond with the materials selected in the case of 1915 Arrears Statement.</p>

It is admitted that if in 1915 a minimum of 80 per cent. in each of the specified groups was adopted by all the Companies in accordance with the instruction, a similar result would more or less automatically follow under the 1916 Instruction, but it is understood that in 1915 the Railway Executive Committee

did not insist on all the Railways having a minimum of 80 per cent. in each group of materials so long as a minimum of 80 per cent. of the total materials issued and used was arrived at.

In 1918 the instructions contained in the "Yellow," "Heliotrope" and "Green" Books were consolidated in a "Brown" Book and issued on 13th December, 1918, to the Railway Companies, as applicable to the Year 1917 and subsequent periods. The "Brown" Book contains the further following modification of the previous instructions.

Clause 8 ("Brown" Book).

Reduction in Mileage of Line open for Traffic.

In the event of a reduction in miles of line open for traffic in consequence of Permanent Way Materials having been sent to France or otherwise, an adjustment had to be made to give effect to this reduction unless it could be shown that the circumstances did not justify an adjustment. The instructions in the "Brown" Book were applied to the Arrears Claims for 1917 and 1918. Further minor modifications in the "Brown" Book in its application to the Year 1919 were issued to the Railway Companies on 13th September, 1920, as follows:—

Clause 8 ("Brown" Book).

Reduction of Mileage of Line open for Traffic.

Those Companies who claimed that circumstances did not justify an adjustment had to submit full particulars of the reasons for not making the adjustment.

Clause 9 ("Brown" Book).

Up to the end of 1918, Companies' Rolling Stock on loan to the War Department for service overseas, were treated as Rolling Stock in Service, and no adjustment in respect of reduction in numbers was made in respect of these. This was altered for 1919.

Rolling Stock loaned to the Company by the Government.

Any expenditure incurred on these during 1919 to form the subject of an adjustment for arrears of maintenance purposes.

Expenditure incurred in the Provision of Temporary Accommodation for Female Staff.

Any expenditure incurred during the control period on accommodation for female staff which proves to be strictly temporary in its character to form the subject of adjustment in the 1919 claim for arrears of maintenance.

(2) ARREARS OF MAINTENANCE AND RENEWAL OF PLANT AND EQUIPMENT.

(b) Works falling within the scope of the General Agreement ("above the line") and not included in Abstracts A or B.

On 27th October, 1916, in announcing to the Board of Trade that all the railway companies had assented to the Supplementary Clauses to the original Agreement contained in the "Pink" Book (see Document No. 71, pages 89 to 94 of the Official Volume) the Railway Executive Committee intimated that the question of arrears of maintenance of works other than permanent way, etc. (Abstract A), and rolling stock (Abstract B) had been raised by some railway companies especially in regard to the maintenance of docks, and after some further correspondence the Treasury asked the Board of Trade to convey to the railway companies their Lordships' assurance "that they recognise that the railway companies will have a claim against His Majesty's Government at the end of the period of the war or at the end of the period of control in regard to arrears of maintenance in the case of works falling within the scope of the general agreement and not included in any special arrangement now made or to be made for the payment of deferred maintenance."

The application of this arrangement does not come into force until the end of the period of control and the Government have, therefore, a free hand in regard

to the detailed instructions for giving effect to the principle of the arrangement except in so far as the instructions made in connection with Abstracts A and B have prejudiced such freedom of action.

(3) INTEREST ON CAPITAL EXPENDITURE.

On 14th November, 1916, the Railway Executive Committee issued to the railway companies a "Pink Book," containing the supplementary clauses to the agreement with the Government, the first clause of which deals with interest on capital expenditure on works brought into use since 31st December, 1912, the rate of interest being 4 per cent. *The companies were allowed to be the judges as to what works should be charged to capital and as this is, in the main, a purely financial arrangement, and as it has been subsequently modified, as shown below, no remarks need be made from an engineering point of view except to note, that while credit has to be given to the Government for the cost of works, replaced credit has not to be given for the cost of works displaced and not replaced.*

On the 7th May, 1919, the Railway Executive Committee wrote the President of the Board of Trade suggesting that if possible a new arrangement should be come to with the Treasury in regard to capital expenditure, their objections to the existing arrangement on financial grounds including:—

- (a) The inadequate amount allowed for interest on capital works brought into use, i.e., 4 per cent.
- (b) The fact that no interest is allowed until the works are brought into use.
- (c) The heavy increased cost for carrying on the work at existing rates of wages and prices of material.
- (d) The uncertainty as to how the railway companies will be recouped for such expenditure in the case of the Government deciding to take over the railways.

On 3rd May, the Board of Trade intimated to the Railway Executive Committee that the Treasury were prepared to agree to the undernoted arrangements:—

- (1) That in place of the present arrangements between the railway companies and the Government with regard to the rate of interest to be allowed on new capital expenditure, interest at the rate of 5 per cent. per annum from the date on which the expenditure is incurred may be allowed in respect of approved capital expenditure.
- (2) That an assurance may be given to the companies that in the event of their undertakings being acquired by the Government the companies shall neither be financially prejudiced nor financially advantaged by reason of having incurred capital expenditure under the present arrangements.

These arrangements were advised to the railway companies on the 15th August, 1919, per the Railway Executive Committee's Circular Letter No. 1930. This circular letter led to some misapprehension and on the 12th February, 1920, the Ministry of Transport defined the situation as follows:—

"As regards works in hand before May, 1919, and also as regards works commenced between that date and the 31st January, 1920, the railway companies may have the option of 4 per cent. interest on capital expended without the Minister's approval, or 5 per cent. interest on capital expended with the Minister's approval.

"As regards works commenced on and after the 1st February, 1920, the right to claim 4 per cent. without the Minister's approval will lapse.

"Any regulations issued in connection with the work of the Accountants Sub-Committee in regard to this or to any other point arising out of the Railway Agreement, should first be approved by the Ministry."

(4) STORES ON HAND AT 4TH AUGUST, 1914.

The arrangement in regard to these forms one of the Clauses in the Pink Book issued to the railway companies in 1916, and is in the following terms:—

Stores.

At the end of the period of the Government control, a cash payment to be made by the Government to each of the controlled companies equal to the difference between (a) the book value of the stores in stock at the 5th August, 1914, and (b) the value of the same quantities of similar stores calculated:—

- (1) As to the extent those quantities are in stock at the end of the control period, at the book values then ruling.
- (2) As to the shortage in the quantity at the end of the control period as compared with the quantity at the beginning, at replacement prices.

The replacement prices to be agreed between the Treasury and the Railway Executive Committee as fairly representing the prices at which the shortage could be made good, having regard to quoted market prices at the end of the control period, the probable movement of prices and the other relevant circumstances. Any amounts already received by the companies for replacement value of material used on work done for the Government must be brought into account when fixing the amount to be allowed under this clause.

Regulations in regard to the calculation of prices, the definition of stores, and generally as to giving effect to this Clause, to be agreed between the Government Accountants and the Railway Executive Committee.

(5) THE QUESTION OF COMPENSATION TO BE GIVEN TO THE RAILWAY COMPANIES IN RESPECT OF THE USE OF UNCREOSOTED SLEEPERS.

Owing to a shortage in the supply of creosote oil it became necessary for the railway companies to put uncreosoted sleepers into the permanent way. On the 27th June, 1917, the Railway Executive Committee asked the Board of Trade for an assurance that the railway companies would be compensated at the end of the period of control for any depreciation of their property that might result from the use of uncreosoted sleepers, and on the 30th July, 1918, the Treasury informed the Board of Trade that My Lords are prepared to admit on principle the liability of the Exchequer for some compensation to the railways on this account. The method of arriving at the amount of this compensation will be somewhat complicated, as it will involve a technical calculation based on the average life of an uncreosoted sleeper compared with the average life of a creosoted sleeper.

(6) INSURANCE OF RAILWAY COMPANIES' PROPERTY AGAINST FIRE.

In this case the Government have arranged to pay the increased cost of repairing damage by fire to "above the line" property in those cases where the property was insured in Fire Insurance Funds belonging to the railway companies themselves.

DEFECTS AND POSSIBLE REMEDIES.

(Cf. Section IV. of Appendix XIV.)

It will be seen from the foregoing details that any slight modifications in the original Arrears of Maintenance Instructions in favour of the Government, are well within the spirit of the agreement, while the interpretations of the agreement and subsequent modifications thereof in favour of the railway companies range from important questions of principle to such comparatively trivial matters as temporary accommodation provided for female staff during the war. The question will arise spontaneously: *Was the agreement—apparently so defective from the railway companies point of view—so perfect from the Government point of view that no flaws in its application were or could be discovered?*

The following are examples of interpretations unfairly acting against the Government with certain possible remedies:—

MEMORANDUM OF INSTRUCTIONS.

Blue Book.

(1) A.

There is no instruction in the "Blue" Book which limits the expenditure by the railway companies on repairs and partial renewals of way, works, plant and equipment, as was undoubtedly the intention when the "Net Receipts" agreement was made in August, 1914. This seems clear from the Railway Executive Committee's letter of 9th August, 1914, to the President of the Board of Trade and from their Circular Letter No. 19 of 13th August, 1914, to the controlled railway companies. Some companies are already largely in excess of their 1913 standard of maintenance after allowing for increased costs and other disturbing factors due to the war, and the Government have, in the meantime, paid over the money. On the other hand, under the arrears of maintenance arrangement, the Government are paying to those companies whose maintenance of way, works and stations (Abstract A) and/or rolling stock (Abstract B) is in arrear on the basis of the 1913 standard, the value of the work in arrear at 1913 prices plus 15 per cent. as a payment on account of the ultimate increased cost when the work is overtaken. Not only so, but a railway company in arrear with Abstract A and in excess with Abstract B, or vice versa, is being paid for the arrears in Abstract A notwithstanding that it has already been paid for the excess in Abstract B.

(1) B.

The limitation in regard to renewals of permanent way and rolling stock in Clause 4 of the "Blue" Book both in its original form and as modified by the Government accountant is illusory, and can be easily be circumvented. Renewals of permanent way and rolling stock are understood by railway accountants to be limited to complete renewals with new materials throughout. Permanent way, for instance, is made up of rails, chair sleepers, fastenings, etc., and each of these classes of materials has a different "life" from the others; consequently it is a simple matter for an engineer to renew his sleepers and chairs at one period and his rails at another, classifying both transactions correctly as "Partial Renewals" for accounting purposes, although to all intents and purposes his permanent way has been completely renewed. Similarly in regard to rolling stock there is no difficulty in building a completely new wagon with second-hand wheels slightly worn and classifying the transaction correctly for accounting purposes as a "Partial Renewal." Partial renewals in both cases being outside the limitation imposed by Clause 4 of the "Blue" Book, the illusory nature of the limitation will be readily appreciated.

The suggested remedy for the above two cases is to limit the whole expenditure on way works, plant and equipment to the 1913 quantum, and to fix a definite term in which to overtake arrears.

(1) C.

The amended interpretation of Clause 4, quoted above (see page 5), gives the railway companies the option of adopting either "additional units" or "additional first cost of rolling stock in service," for calculating the sum necessary to make provision for the replacement of such "additional units," or "additional first cost." Those companies which adopt "additional first cost" not only receive from the Government the increased cost of new rolling stock over 1913 prices, but they interpret the instruction as giving them a percentage (say 5 per cent.) of the increased cost of such rolling stock over their 1913 total cost, on the plea that replacement at the enhanced price of the rolling stock has to be provided, although it is the Government who have paid for this addition.

The suggested remedy is to adhere to the obvious intention of Clause 4 as amended of the Memorandum of Instructions (Blue Book), and disallow the item.

A rough approximation of the estimated extra cost to the Government if these three suggested alterations are not made is £15,000,000, arrived at as follows:—

The amount of excess maintenance cost of way works and rolling stock from 5th August, 1914, to 31st December, 1919, over the 1913 quantum is estimated by the Director General of Finance and Statistics at actual costs to be	£ 8,000,000
For the remaining period of control from 1st January, 1920, to 15th August, 1921, the amount of excess maintenance at actual costs is estimated as double that for the year 1919, viz., £3,500,000	7,000,000
Total	£15,000,000

(This is for the same saving as the £15,000,000 in para. 2.)

2.

ARREARS OF MAINTENANCE INSTRUCTIONS.
Abstracts A and B.

(Yellow, Heliotrope, Green and Brown Books.)

The original agreement provided that the whole of the railways were to be regarded as a collective entity. This principle has not been adhered to in regard to Arrears of Maintenance of Way and Works (Abstract "A"), and Rolling Stock (Abstract "B"), where not only is each company dealt with individually, but each Abstract is considered separately.

The result is that the Government pays for all excess work over the 1913 quantum on each Abstract which may be in excess, and has also to make up the arrears on each Abstract which may be in arrear at prices to be ascertained at the end of control, a payment on account being made in the meantime.

A very rough estimate of the amount involved in this item is £15,000,000 (same item as para. 1).

The suggested remedy is to cancel the interpretation and limit the total payment by the Government for maintenance and renewal of way, works, and equipment to the 1913 quantum of all the companies. If this course is taken, then although the present arrangements for payment in (A), (B) and (C) of the preceding clause were allowed to continue, the Government could still save what might amount to £15,000,000 because the amounts in excess in the case of some companies would be charged against the arrears of other companies.

From this point of view the undernoted Circular Letter No. 10, dated 8th August, 1914, from the Railway Executive Committee to the Controlled Railway Companies is important:—

Instruction No. 10.

Railway Executive Committee,
35, Parliament Street,
Westminster, S.W.
8th August, 1914.

DEAR SIR,—

As you are aware, in connection with the taking over of the railways by the Government under the powers of the Regulation of the Forces Act, 1871, Section 16, there arises the question of the compensation payable under that section to each of the companies whose railways are taken over.

It speedily became evident to the Executive Committee that an immediate settlement of this question if practicable upon terms fair to the railway companies and the State would be of enormous advantage from the point of view of the efficient working of the railways to the best advantage of the nation, and also from the point of view of the interests of the companies themselves.

If the matter is adjusted now it is obvious that two advantages, the importance of which it is difficult to exaggerate, will accrue.

The Executive Committee will be in a position to exercise their functions with a single eye to the efficient working of the railways without having to consider the possible effect of any particular scheme of working upon the interests of the individual companies in reference to the question of compensation.

The preparation of elaborate accounts and returns for the purpose of establishing claims to compensation hereafter will become unnecessary, and the possibility will be avoided of arbitrations of great

magnitude and complexity, the result of which would be very uncertain.

These are among the most important and obvious advantages of an adjustment of the question of compensation now, as against leaving it in abeyance, but they by no means exhaust the advantages.

Acting upon this view the Executive Committee have been in negotiation with the Government on the lines of some collective arrangement, which, while dealing, in the first instance, with the ascertainment in one sum of the compensation payable to all the companies whose lines are taken over, should provide also for the allocation to each company of its proper proportion of the aggregate sum.

A principal reason actuating the Government in desiring an arrangement on this basis was the natural desire to be secured against a claim for compensation by an individual company for their loss of traffic which had been merely transferred to the line of another company from causes arising out of the state of war.

The Committee felt no difficulty in admitting as a principle that no company would be likely to wish to obtain an advantage out of a national emergency at the expense of the nation, and though they did not share the view of the Government that such a result might occur under the provisions of the Act above referred to, they felt that they ought to co-operate with the Government in arriving at some arrangement which would remove all doubt or difficulty of this kind.

The Executive Committee have now concluded provisionally, i.e., subject, of course, to the assent of each company concerned, an arrangement which is set forth in the accompanying minute of the 6th August, 1914.*

The Executive Committee, before concluding the provisional arrangement with the Government, were advised by a Committee of Accountants, and are satisfied that the basis of compensation accepted by the Government is not only generally just but generous.

Beyond this, however, the Executive Committee from their experience of the last few days are unanimously of opinion that it is impossible promptly to carry out the movements rendered necessary, very often at a few hours' notice to meet the national emergency, except upon the basis of an agreement of this sort. Indeed, so much have they been impressed with this view that they have carried out all necessary moves upon the basis that such an agreement is in force.

Under these circumstances I am directed by the Executive Committee to ask you to obtain the assent of your Board to the above proposal without delay and to communicate their answer to me at the above address before 4.0 p.m. on Wednesday next the 12th instant.

I may add that it is obvious that many points of difficulty upon matters of detail under the above proposal may suggest themselves to the various companies, but in the opinion of the Executive Committee these may safely be left to be dealt with subsequently, and should not be allowed under present circumstances, to delay your company's notification of its acceptance of the proposal.

Yours faithfully,
(Sgd.) H. A. WALKER,
Acting Chairman,
Executive Committee.

Secretary,
.....Railway

3.

This question of Arrears of Maintenance is extremely complicated and largely technical in its nature. It has to be noted that the Government has been making payments on account of arrears of work which the companies have not yet overtaken and in respect of which, therefore, they have not had any outgoings. The companies consequently are having the use of the money, the interest on which accrues to them "below the line." It is understood that one of the reasons for making the payments was that they are in the nature of a *quid pro quo* to the companies in respect of the "stitch in time" principle of carrying out repairs. This is an important point,

* Page 4 of Printed Documents, Appendix I.

because obviously if the "stitch in time" principle has been commuted for payments on account, the question of arrears of maintenance is simplified considerably. The "standard" of maintenance by which the "arrears" are to be ascertained is also a very important matter. So far as Maintenance and Renewals of Way Works and Stations (Abstract A) and Maintenance and Renewals of Rolling Stock (Abstract B) are concerned the "standard" has been fixed as the total amounts shown in these abstracts in the published accounts of the companies for the year 1913. It is obvious that the "arrears" to be paid for are the arrears of work at the end of the control period, because although a company may be in arrear now, part of these arrears may be overtaken before the next August, the balance being the arrears for which the Government will be liable. Consequently, it is important to note that a portion of the standard work of maintenance is being carried out currently and the cost thereof charged against the Government through the "Net Receipts" Account. It has been taken for granted that the cost of that portion of the "standard" work which has been carried out and charged against the Government has cost more than a similar portion of the "standard" in 1913, as the result of various disturbing factors; consequently these disturbing factors must be eliminated before a correct comparison can be made with the cost in the "standard" year. Taking the last formulæ which have been issued to the railway companies, viz., those for 1919, it will be found that adjustments have to be made in the cost of the work done and paid for by the Government through the "Net Receipts" Account in respect of the under-noted disturbing factors before a comparison is made with the cost of the "standard" work in 1913:—

<i>Abstract A.</i>	<i>Abstract B.</i>
(1) Credits for supervision charged to the Government.	(1) Credits for supervision and profit on War manufactures.
(2) Reduction in Mileage of Line open for Traffic.	(2) Rolling stock on loan to War Department for service overseas.
(3) Expenditure on work for Government charged to Revenue— <i>e.g.</i> , small works under £10.	(3) Reduction in Rolling Stock.
(4) New Lines opened.	(4) Expenditure on work for Government charged to Revenue— <i>e.g.</i> , small works under £10; alterations to Rolling Stock for the Military Authorities.
(5) Renewals and Depreciation of additional works or equipment other than Permanent Way.	(5) Expenditure on repair of Rolling Stock loaned by H.M. Government.
(6) Additional expenditure for abnormal wear and tear.	(6) Additions to Rolling Stock in service.
(7) Special expenditure for lifting and restoration of Permanent Way due to shortage of materials.	(7) Renewals and Depreciation of additional equipment other than Rolling Stock.
(8) Expenditure incurred in the provision of temporary accommodation for Female Staff.	(8) Additional expenditure for abnormal wear and tear.
(9) Expenditure incurred during 1919 in respect of holidays granted with pay in excess of those (if any) granted with pay in the year 1913.	(9) Additional cost of Rolling Stock purchased from or repaired by outside firms.
(10) Bonus payments to Supervisory Staff.	(10) Expenditure incurred during 1919 in respect of holidays granted with pay in excess of those (if any) granted in the year 1913.
(11) Allowance (arrived at in the prescribed manner) to reduce to 1913 cost.	(11) Bonus payments to Supervisory Staff.
	(12) Allowance (arrived at in the prescribed manner) to reduce to 1913 cost.

The only disturbing factors calling for remarks are:—

- (i) Additional expenditure for abnormal wear and tear. (No. 6, Abstract A; No. 8, Abstract B.)
- (ii) Allowance to reduce to 1913 cost. (No. 11, Abstract A; No. 12, Abstract B.)

(i) *Additional Expenditure for Abnormal Wear and Tear.*—The railway companies claim that such expenditure as that incurred in repairing damage to telegraphs by storms should be treated as abnormal wear and tear. Such expenditure is, of course, borne by the Government through the net receipts account, and if it is deducted from the commencing figure in the arrears formula, the Government will be liable for further arrears of work. This contention of the companies has, however, been definitely refused, and the issue is therefore narrowed down to abnormal wear and tear due to war conditions. Under this heading, only expenditure actually incurred in the control period in making good abnormal wear and tear can be deducted. Abnormal wear and tear not made good at the end of control is to form the subject of a separate claim. The railway companies will have some difficulty in establishing such claims, and each case of abnormal wear and tear submitted will have to be carefully scrutinised and dealt with on its merits, having regard to all the factors alleged to have caused the abnormal wear and tear. The onus of proof that such abnormal wear and tear has taken place should rest on the railway companies.

(ii) *Allowance to reduce to 1913 cost.*—This is the most important of these adjustments, not only because it affects all the other adjustments but chiefly because it involves a large sum of money. In the year 1913 the total expenditure of the railway companies in Great Britain under Abstracts A and B was over £25,000,000; the cost of the same work at present-day prices would be more than £75,000,000; consequently, a variation of even 1 per cent. in the allowance for the increased cost of labour and materials would make an appreciable difference in the liability of the Government in respect of arrears of maintenance. Owing to the technical nature of the subject and its inherent importance from the point of view of the Government's financial liability, it is necessary to deal at length and in considerable detail with this question. As the conditions in connection with Abstracts A and B differ considerably it is advisable to take each Abstract separately.

Abstract A.

The principal items making up the expenditure charged against the various headings in the Abstract both in the "standard" year and in the control period are as follows:—

	£
Salaries	
Wages	
Materials used	
Engine power supplied by locomotive, &c., department	
Other charges by locomotive, &c., department	
Charges by other departments	
Work done by contractors	
Amounts in respect of property displaced credited to Capital Account	
Expenditure on non-"J" joint lines and joint stations	
Sundry debits	
	Gross debit £
Less: Credits for materials recovered	
Sundry credits	
	Net cost of work done, being the commencing figures of the arrears formula
Add or deduct:	
Amount transferred to or from Depreciation Fund or Suspense Account	
	Total of Abstract £

In order to calculate the allowance for the increased cost of labour and materials, two only of these items are taken as the basis for the calculation, viz:—

Wages.

Materials used.

(The detailed instructions in regard to the calculation are given in Clauses 15 to 20 of the Brown Book and examples are worked out in the first part of the Heliotrope Book.)

The allowance arrived at on the basis of these two items is applied to all the other items in the Abstract, with the exception of the "Transfer to or from Depreciation Fund or Suspense Account."

This method is fundamentally wrong in principle and not only gives an erroneous result, but has undoubtedly led to abuse, in the undernoted respects:—

- (a) The allowance does not give a correct result because it leaves out the important element of credits for recovered materials, i.e., scrap, etc., and is applied to figures representing items of a different nature and composition.
- (b) Items included in the accounts at pre-war costs are subject to a deduction for increased costs before comparison with the 1913 standard.
- (c) The provision that not less than 80 per cent. of each of the three classes of materials used on Abstract A work should be taken has not been adhered to by all the railway companies.
- (d) 80 per cent. (in value) of materials issued and used is not a fair loading if companies can choose their materials and limit themselves to 80 per cent.

3(a).

It will be observed from the undernoted instructions that in arriving at the allowance for increased cost, the credits from materials recovered are not taken into account:—

Increased Prices of Materials. Abstract "A."

18(a) In order to avoid the trouble of calculating the whole of the materials used in the control period at prices for the year 1913 not less than 80 per cent (in value) shall be so calculated.

(b) In determining the minimum of 80 per cent. (in value) the gross debit for the materials issued and used at the actual issue prices, i.e., before taking credit for the amount dealt with in respect of scrap materials returned, should be adopted as the basis for the total value of the materials mainly charged to Abstract A. So far as possible the materials selected should correspond with the materials selected in the case of previous Arrears Statements.

(c) The actual quantities of the materials issued and used mainly chargeable to Abstract "A," selected to represent the 80 per cent. in the control period under review, and the cost thereof at actual issue prices, to be tabulated in detail and compared in the total with the cost for similar quantities at the issue prices for the year 1913, the net increase so ascertained to be expressed as a percentage of the former cost.

The percentage increase so ascertained to be applied to the cost of all materials used in the control period under review and charged to Abstract A, after taking credit for the amount dealt with in respect of scrap materials returned which will give "the cost at the prices for the year 1913 of materials used in maintenance and

renewal work carried out in the control period under review," referred to in Clause 20 hereof.

The effect of this instruction is that the formula allowance for increased cost deduced from the value of materials issued and used—i.e., eliminating credits for scrap—has to be applied to a net value—i.e., after deduction of credits for scrap—and if the percentage of increase in the gross and net is different, the result will be mathematically incorrect. A departure from the correct procedure for arriving at a true result inevitably raises the question as to which party is benefiting by the error. When the method was adopted the course of events was of necessity obscure, but this at least would be clear that on a rising market the railway companies would benefit, while on a falling market they would lose. As events have turned out, there has been practically a continual rise in prices during the whole period of control. This question of credits from materials recovered involves some technical details both in connection with the work done and with the cost of doing the work. It will be readily appreciated for example that, in the maintenance and renewal of running lines and sidings which form on an average more than 50 per cent. of the total expenditure on Abstract A., for every rail, chair, sleeper, fishplate, bolt and spike, issued and used, a corresponding rail, chair, sleeper, fishplate, bolt and spike, are recovered. These recovered materials may be re-usable by the railway company or they may be of no use except as scrap for selling purposes. As a rule, the railway companies deal with both these transactions through their Stock of Stores Account; i.e., they charge out the materials used and take back to stock the materials recovered. Where that is done, the cost of materials issued and used is charged against Abstract A at their book prices; in the case of the valuation of recovered materials, however, there are different practices in vogue among the railway companies; the principal methods being (a) to credit Abstract A with approximate market value, and (b) to credit Abstract A with purely nominal values, an adjustment being made in both cases when materials are sold and actual values realised. If re-usable materials are credited to Abstract A at nominal values when recovered, they are charged out at nominal values when re-used, and a similar procedure is adopted when the valuation of materials recovered is at approximate current market prices. It will thus be seen that the materials issued and used usually consist of:—

New materials at purchase prices.

Re-usable materials at nominal prices in the case of some companies, and at approximate current market prices in the case of others;

while the materials recovered consist of:—

Re-usable materials credited to Abstract A at nominal prices in the case of some companies, and at approximate current market prices in the case of others.

Scrap materials credited to Abstract A at nominal or at approximate current market prices to begin with, but a further adjustment is usually made in both cases in Abstract A of the difference between the stock price and the price realised when the scrap is sold.

The following example will show the net result of these different procedures:—

<i>Recoverable Materials valued at Nominal Prices.</i>	
10 tons new rails used, at £18 per ton purchase price	£180
Less: 9 tons re-usable rails recovered, at £2 per ton nominal value	18
	£162
9 tons re-usable rails re-used at £2	£ 18
Less: 8 tons scrap rails recovered at £2 per ton nominal value	16
	2
	£164
Less: Credit from 8 tons scrap rails sold at £10 10s. actual selling price	£ 84
Deduct: Book value already credited at £2 per ton	16
	68
Net result in both cases	£ 96

<i>Recoverable Materials valued at approximate Current Market Prices.</i>	
At £18 per ton purchase price	£180
At £11 per ton approximate market price	99
	£ 81
At £11 per ton	£ 99
At £10 per ton approximate market price	80
	19
	£100
At £10 10s. actual selling price	£ 84
At £10 per ton	80
	4
	£ 96

It is, of course, not contended that the same result will be obtained in actual practice from these two methods of dealing with materials recovered, but the net results in both cases will be approximately near one another. These differences in method, however, gave rise to complications in carrying out the Arrears of Maintenance Instructions. Those companies whose pre-war practice was to value recovered material at market prices continued their practice during the control period and credited Abstract A with the high prices then ruling. When second-hand materials were used by these companies on Abstract A work such materials were charged out at the higher prices. Those companies, however, who dealt in nominal values had also to continue their pre-war practice as a result of which their second-hand materials used on Abstract A work was charged out at the same prices as in the standard yard, and if these materials at nominal prices were included in the minimum of 80 per cent. referred to in the Arrears of Maintenance Instructions their allowance for increased costs would be considerably reduced.

It is also quite possible that during the Control period, a piece of work might, so far as materials are concerned, cost less through the operation of the high credits for recovered materials, than a similar piece of work in the standard year. The following example shows the approximate cost in materials of re-railing one mile of Running Line in the years 1913 and 1918 with new rails weighing 90 lbs. per yard, the recovered rails being of the same section when new:—

<i>Materials used in both Years:</i>		T. C. Q. lb.	
3,520 yds. 90 lbs. new rails	...	141	8 2 8
<i>Materials recovered in both Years.</i>			
3,520 yds. 90 lbs. re-usable rails at 87 lbs. per yard	...	136	14 1 4
<i>1913.</i>			
		£	s. d.
New rails 141:8:2:8 at £8 per ton	...	1,131	8 7
Less: Credit for re-usable rails 136:14:1:4 at 65s. per ton	...	444	6 5
Net debit to Revenue		£687	2 2
<i>1918.</i>			
			Percentage of Inc. on 1913
New rails 141:8:2:8 at £15 per ton	...	2,121	8 7 87.5 per cent.
Less: Credit for re-usable rails 136:14:1:4 at £11 per ton	...	1,503	17 2 238.5 per cent.
Net debit to Revenue		£ 617	11 5

Under the instruction quoted above (page 11) the materials issued and used in 1918 would be calculated at 1913 prices and the difference expressed as a percentage of the 1918 cost as follows:—

<i>Materials used in 1918:</i>		£
New rails 141:8:2:8 at £15 per ton	...	2,121
1913 cost at £8 per ton	...	1,131
Increase	...	£ 990

Representing 46.7 per cent. of the 1918 cost.

This percentage would then be applied to the net debit to Revenue in 1918 before comparison with the 1913 quantum as under:—

		£
Net Debit to Revenue	...	618
Less: 46.7 per cent. to reduce to 1913 costs	...	288
		330
1913 Quantum	...	687
Arrears of Work	...	£357

From such an example, which could quite easily happen, the Government would be placed in the anomalous position of having to pay for arrears of work when in reality owing to a similar piece of work having been done cheaper in the control period than in 1913 through the high prices realised from the recovered materials, there were no arrears of work at all.

The application of the percentage arrived at on the basis of wages and materials only to the following items of expenditure on Abstract A, referred to on page 10 hereof, viz., "Salaries," "Expenditure on Non-'J' Joint Lines and Joint Stations," "Sundry Debits" and "Sundry Credits," is equally open to objection on principle.

3(b).

Some companies have not increased their charge for engine power by their locomotive department against their engineers' department beyond the pre-war figure. This makes no difference in the "Net Receipts" Account, but the debit included in Abstract A is subject to adjustment for increased costs in the arrears of maintenance claim, although there is no increase in cost while the credit in Abstracts B1 and C is not taken into account for arrears of maintenance purposes. Again, in the case of many companies the amount charged against Abstract A in respect of property displaced is the *original cost* of the property. This item also is subject to adjustment for increased cost, although admittedly it is a pre-war figure, and as the increased cost of replacing the property is charged to capital the railway companies receive a further payment under the "Interest on Capital Agreement." The application of the allowance for increased cost of labour and materials on the basis of the wages paid to the railway companies' own staff and the materials used from their own stocks to the cost of work done by contractors is also open to objection. It has to be remembered that a considerable portion of the engineering work charged to Abstract A in 1913 was carried out by contractors, and the cost thereof is therefore included in the "standard" for that Abstract. This work done by contractors is usually carried out by skilled and semi-skilled men. It is notorious that the wages paid by the railway companies in 1913 to the large majority of the men engaged in Abstract A work, viz., platelayers and surfacemen, were exceedingly low; consequently the increases granted to these men during the war bear a higher ratio to their pre-war wages than the corresponding increases granted by contractors to their skilled and semi-skilled employees bear to the pre-war wages of these men; therefore in applying the percentage of increased cost arrived at on the basis of the increased wages paid to their own staff and the increased cost of their own stores in the years when the increased wages were included in Abstract A to the cost of work done by contractors in these years, the railway companies would appear to be reducing the work done by contractors below the cost of the corresponding work in the standard year. A distinction, however, has to be made here. In the years 1915 and 1916 the increases granted to platelayers, surfacemen and other "Conciliation Grade" men engaged on Abstract A work were not charged to Abstract A, but to a special heading in order that these increases might be apportioned between the Government and the companies in accordance with the arrangement relating to the first war bonus granted to the men in the conciliation grades. The railway companies were therefore adversely affected in these years, but it has to be remembered that the percentage of increase in 1915 and 1916 was relatively small. Taking the whole control period and setting off the loss in 1915 and 1916 against the gain from 1917 onwards, it is considered that the railway companies have benefited under this arrangement, but in view of the difficulty of arriving at a correct figure for the increased cost of contractors' work over the cost of the corresponding work in 1913, it is inadvisable to disturb the arrangement so far as contractors' accounts are concerned, especially as the question of credits from scrap recovered does not materially affect these accounts.

3 (c).

The materials used in the repair and renewal of way, works and stations are very different in character and are subject to varying fluctuations in their purchase prices. This seems to have been appreciated at the time the "Heliotrope" Book was issued, because the intention is clearly expressed there that the materials issued and used on Abstract A works were to be divided into three groups and not less than 80 per cent. in value of each group were to be calculated at 1913 prices.

It may be that it was owing to the complications arising from the differences in method of valuing recovered material among the various railway companies referred to on pages 11 and 12, that the Railway Executive Committee did not insist on all the railway companies carrying out the provision in the Heliotrope Book that not less than 80 per cent. of each class of materials should be calculated at 1913 prices, so long as not less than 80 per cent. of the total were so calculated.

3 (d).

The original intention of limiting the materials to be calculated at 1913 prices to 80 per cent. was to save work.

The instruction reads:—

"In order to avoid the trouble of calculating the whole of the materials used in the Control period at prices for the year 1913, not less than 80 per cent. (in value) shall be so calculated."

Obviously, however, if the railway companies take advantage of this concession by choosing the materials most favourable to themselves and limiting the calculation to 80 per cent., this will not be a fair loading. In this case also, it is understood the Railway Executive Committee have left the choosing of the materials to the individual railway companies, as a result of which the original intention of saving work became a subsidiary consideration if by taking out the full 100 per cent. a railway company ascertained which materials from their point of view would be the best to include in, and which materials should be eliminated from, the 80 per cent. minimum.

Abstract B. (1) Locomotives; (2) Carriages;
(3) Wagons.

Abstract B is dealt with as a whole in arriving at the net amount of Arrears (*e.g.*, an excess in Wagons is deducted from arrears in Locomotives and Carriages), but separate calculations are made for each section of the Abstract to arrive at the allowance for increased costs of labour and materials. The method of arriving at the allowance is the same for all three sections and they can therefore be treated as one and the Abstract dealt with as a unit. The principal items making up the expenditure charged against the various headings in the three sections of the abstract in the control period are as follows:—

	£
(1) Salaries ... ..	...
(2) Wages of men employed on the renewal and repair of rolling stock ... ..	...
(3) Materials used in the renewal and repair of rolling stock ...	...
(4) Renewals and repairs to joint stock by other railway companies ... ..	...
(5) New rolling stock purchased...	...
(6) Rolling stock repaired by contractors ... ..	...
(7) Wages of men employed on the renewal and repair of machinery and plant; on cleaning workshops; attending to machinery and other workshop expenses ... ..	...
(8) Materials used in the renewal and repair of machinery and plant and for other workshop expenses; supply of power, etc.	...

(9) New plant, equipment and tools purchased for replacement purposes ... ..	...
(10) Sundry debits ... ..	...

Less :

(11) Credits for materials recovered	...
(12) Sundry credits ... ..	...

Net cost of work done, being the commencing figure of the arrears formula ...

Add or Deduct :

Amount transferred to or from debit or credit of depreciation fund or suspense account

Total of Abstract ... £

In the year 1913 very few railway companies had their rolling stock repaired by contractors, and, as a rule, the large railway companies carried out all their renewals in their own shops. To meet the altered circumstances in the control period, a special adjustment is allowed for rolling stock renewed or repaired by contractors, which, in ordinary circumstances, would have been built or repaired in the companies' own shops. This is one circumstance different from those in connection with Abstract A. There are also comparatively few men in the Conciliation Grades employed on Abstract B work; consequently, the war bonus in 1915 and 1916, charged to the Special Account, instead of to Abstract B, is comparatively trivial. As the bulk of the men employed on Abstract B work are skilled and semi-skilled men, the ratio of the war increases granted to them will approximate to the ratio of the increases granted to the corresponding artisans, etc., employed by contractors, although, owing to the fact that the wages to railway shopmen were below the relative district rates in 1913, the ratio of increase will, it is considered, be higher in the case of the railway shopmen than in the case of contractors' men. Taking everything into consideration, it is thought that, after deducting the special allowance in respect of contractors' profit and higher working expenses, and applying the percentage for increased costs arrived at on the basis of the wages paid to the railway shopmen and materials used in the companies' shops on the repair and renewal of rolling stock to the balance of the amount paid to contractors for renewals and repairs of rolling stock carried out by them, the railway companies are benefiting at the expense of the Government, although not to a very great extent.

As in the case of Abstract A, only two of the items charged to Abstract B, quoted on page 13, are taken as the basis for the calculation of the allowance for the increased cost of labour and materials, viz.:—

Wages of men mainly employed on the renewal and repair of rolling stock:

Materials mainly used in the renewal and repair of rolling stock.

It is difficult to understand why the wages of men employed on workshop expenses should have been left out, because it would have simplified matters considerably for the clerical staff engaged on the calculation, and would have given a more accurate result. There is also no obvious reason for leaving out of the calculation the materials used in connection with workshop expenses in arriving at the 80 per cent. minimum referred to in the instructions, while all the remarks in regard to credits from materials recovered in connection with Abstract A apply with equal force to the credits from materials recovered in connection with Abstract B and need not be repeated here. The application of the allowance for increased costs arrived at on the present basis to the items of "Salaries," "Renewals and Repairs of Joint Stock by other Railway Companies," "Sundry Debts" and "Sundry Credits" is open to objection.

The suggested remedy for (3), pages 11 to 13, quoted above, is to work out a correct coefficient by taking all factors which are at present omitted into consideration.

A rough approximation of the extra cost to the Government if these alterations are not made is £14,000,000, arrived at as follows:—

The total actual expenditure on Abstract A and B from 5th August, 1914, to 31st December, 1919, is estimated by the Director-General of Finance and Statistics as ...	£	
The estimated actual expenditure for the remaining period of control from 1st January, 1920, to 15th August, 1921, is as follows:—		
Year 1920 (same as 1919) ...	169,800,000	
Control period of 1921 ...	51,500,000	
	28,700,000	
Total ...	£250,000,000	

It has been estimated that the coefficient for each control year under the present Arrears of Maintenance Instructions is overstated by not less than 2 per cent.		
2 per cent of £250,000,000 ...	5,000,000	
Add to bring this amount up to the value current when the work is executed, say ...	9,000,000	
Total ...	£14,000,000	

4.

Total Expenditure by Railway Companies.

There is no incentive to economy on the part of the railway companies, because their 1913 net receipts being guaranteed, any expenditure "above the line" falls on the Government; the latter has at the moment no efficient check on such expenditure. The importance of this will be realised when it is stated that on an approximate rough estimate of the total expenditure of the railway companies for the seven years of control, viz., £1,200,000,000 even 5 per cent. gives £60,000,000.

5.

Stores Agreement.

As the Ministry of Transport has, with the advice of the Rates Advisory Committee, increased both rates and fares with a view to meet the increased expenditure due to the economic conditions now prevailing, including the increased cost of Stores, the railway companies do not appear to be entitled to receive from the Government a payment which will put them in the position of having at the end of the control period the same quantity of stores on hand as they had at 4th August, 1914, at pre-war prices, especially as that will give them the additional advantage of being able to realise the high market prices from the serviceable and scrap materials to be recovered from their Way and Works when the low-price materials are used on Maintenance and Renewal.

The suggested remedy is that a new arrangement should be made. The Stores arrangement was entered into in 1916 to meet the circumstances then ruling; as these circumstances have completely changed and the railway companies have a *quid pro quo* the Government may fairly claim that they

(the railway companies) should not be paid for the increase in the stores twice over.

In any event the railway companies are not entitled to the enhanced value of the credits from recovered materials corresponding to the quantity of stores on hand at pre-war prices.

If the arrangement is revised as suggested above the saving to the Government is estimated by the Director-General of Finance and Statistics at £20,000,000. The enhanced value of the recovered materials over pre-war prices is estimated at £5,000,000, arrived at as follows:—

The stock of stores on hand of the 14 principal railway companies in Great Britain at 31st December, 1913, was ...	£	
The corresponding stock of stores of the remaining railway companies is estimated as one-ninth of that figure ...	13,376,000	
	1,486,000	
	14,862,000	
Say ...	15,000,000	
Deduct cost of stores on hand with no residual value such as coal, oil, etc., say 50 per cent. ...	7,500,000	
Leaving cost of stores on hand which when used on Maintenance and Renewal Work will produce serviceable and scrap materials ...	7,500,000	
It is estimated that the pre-war value of the recovered materials would be ...	2,500,000	
And that the value of similar materials at the end of the control period will be ...	7,500,000	
Being an enhanced value of ...	£5,000,000	

If the stores arrangement is not revised, as suggested above, there are two further points to which attention should be drawn:—

- (1) Under present conditions, it would be profitable to the railway companies to withhold scrap from the market until the end of the control period, and either give the Government credit at low book values or not take such materials into their books at all
- (2) The railway companies can purchase new materials during the control period and charge them against the Government; but these materials may not necessarily be used, and may be on hand at the end of the control period, although not included in the Book Stock.

It seems desirable, in such an event, that steps should be taken to ensure a correct stock-taking of all materials on hand at the end of the Control period, so that the Government may be satisfied that the basis figure of the Claim under the Stores arrangement is reasonably correct.

APPENDIX XV.

STATEMENT of Evidence submitted by Sir ALBERT WYON.

I was appointed in May, 1916, to act on behalf of His Majesty's Government as Consulting Accountant in relation to the State Control of Railways, in succession to my late senior partner Mr. J. Gurney Fowler, who had been appointed to the office in September, 1914, in conjunction with Sir William Plender. With the permission of the Committee, I will defer my explanation of the duties attached to my position until I come to speak of the means now being taken to safeguard the interests of the State in the assessment of claims under the agreement with the railways.

As I have indicated, my appointment dates from a period some time after the inception of control, and I have therefore no personal knowledge of the negotiations which resulted in the original agreement or the circumstances concerning the issue of the original Memorandum of Instructions, which has been treated as an authoritative code of rules for the preparation of claims under the agreement. I find, however, that the Memorandum, which was prepared by a committee of the accountants of the principal railway companies, was submitted in draft to my predecessor, and it is evident from the correspondence and from notes he has left that the proposed rules were carefully considered by him and discussed with, and approved by, the Board of Trade before they were finally issued.

Subsequently as questions arose, or as amplifications of the original instructions were needed as a consequence of the prolongation of the war, supplemental Memoranda of Instructions were compiled. These memoranda were submitted to me, and as a rule to my colleague Sir William Plender before they were issued with the approval of the Board of Trade or of the Ministry of Transport.

The particulars concerning the agreement for the assessment of compensation payable to the railways passing under State control are set forth in the collection of papers entitled "Principal Letters and Documents relating to the General Railway Agreements." I have had the opportunity of looking through this collection of papers and know of no document which I think could be usefully added as throwing light on the subject of the general agreements between His Majesty's Government and the railway companies.

The terms of compensation may be roughly summarised thus: The Government undertakes to make up to the railway companies any deficiency in net revenue on railway working (including auxiliary businesses) received by them per annum during control as compared with their net revenue therefrom as set forth in the accounts they issued to their shareholders and filed with the Board of Trade for the year 1913.

The guarantee operates with regard only to the revenue grouped under certain specified heads in the statutory form of accounts, viz.: the first seven items in Account No. 8, which may be roughly said to comprise the net receipts from railway working. It does not cover certain general classes of revenue such as rents and interest, and leaves untouched the dividends and interest payable upon the companies' capital. It provides them with the same total of net receipts as appearing in their published accounts of 1913, and leaves each company to distribute the amount, together with any revenue from classes of receipts unaffected by the guarantee, in accordance with the company's regulations.

The standard taken was, as I have indicated, the net revenue receipts under certain heads as shown by the published accounts of "1913." There has never been any investigation into the accounts of that year with the object of ascertaining that the net receipts so shown represented the actual profit earned in 1913, as the guarantee was apparently intended to ensure to each company not necessarily the actual net profit of 1913, but rather the particular figure of net revenue set out in the published account of that year.

Each company is bound to prepare for each year of control an account of revenue receipts and expenses, and the difference between the net result of this account and the published figure of net receipts of 1913 represents the compensation payable by the Government.

It should be explained that owing to the cessation of the Clearing House divisions of traffic and of certain charges between the companies, the Revenue Accounts prepared during control do not necessarily represent the net revenue derived from the working of a particular undertaking.

In one respect the right of a company to charge the Government with expenses properly incurred on revenue account under the agreed heads is limited, viz.: in respect of renewals of Permanent Way and Rolling Stock, which are limited (subject to certain agreed variations) to the quantum of 1913. There is no agreement with the British railways limiting the charges for repairs as distinguished from renewals, and in this respect the arrangement with the British railways differs from that entered into with the Irish railways.

The arrangements whereby the companies are permitted to charge the Government with Arrears of Maintenance and with Interest on Capital Works brought into use since the beginning of the basis year 1913 as set forth in the documents before the Committee are incidental to and do not modify the broad principle of the compensation agreement.

Claims under these three heads, viz., Compensation for Deficiency of Net Receipts, Arrears of Maintenance, and Interest on Capital Expenditure, have been and are being currently dealt with, but there are claims which, though they will arise as a result of the principles of compensation agreed upon, cannot be dealt with until the termination of control, such as claims in respect of replacement of stores and for abnormal wear and tear, the result of special conditions of traffic during control not made good before the termination of control. There are also claims which have been deferred by agreement until the termination of control in respect of deferred maintenance of assets other than those the maintenance of which is charged in the Revenue Abstracts, entitled "Maintenance and Renewal of Way and Works," and "Maintenance and Renewal of Rolling Stock," such as canals, docks, harbours and steamboats.

There has been no discussion yet with the companies as to the methods to be followed in formulating and assessing such claims, with the exception of the claims for replacement of stores, in respect of which an agreement has been arrived at (Document No. 71).

I am not in a position to express any useful opinion with regard to the possible extent of the outstanding liabilities of the State under the agreements. The amount of the claims under the guarantee of net receipts will be affected on the one hand by the increased cost of working resulting from increased rates of wages paid and increased cost of materials used, and on the other hand by the additional receipts which may be expected to result from the increases in passenger fares and goods rates. The claims for Arrears of Maintenance unexecuted at the close of control and for replacement of stores cannot be estimated until the close of control and until the principles upon which the cost of executing such arrears shall be assessed have been formulated and agreed.

I am also not able to express any opinion as to the amount of any claim that may be made for the cost of making good abnormal wear and tear not made good at the end of control, and indeed until the principles upon which claims under this head have been discussed and settled it does not seem possible to form any trustworthy forecast of the liability.

I will now describe the system of audit and examination of the claims made by the companies under the compensation arrangements which has been adopted with the object of safeguarding the interests of the State.

The Railway Executive Committee was formed at the outbreak of war and consisted of the general managers of twelve of the principal railway companies with the President of the Board of Trade as chairman. This Committee appointed a Sub-Committee of Accountants consisting of the chief accountants of the companies represented on the Executive Committee. This Sub-Committee was charged with the duty of examining and reporting upon claims made under the Compensation Agreement.

To enable them to discharge this duty the Accountants' Sub-Committee apportioned the work of investigation among members of their body, the claim of each company being referred in the first instance to a member unconnected with the claimant company.

The companies' claims are drawn up in a form prescribed by the Railway Executive Committee and approved by the Board of Trade. They are signed on behalf of each company by the chief accountant, and in the case of the claims for guarantee of net receipts (but not in the case of claims for arrears of maintenance and interest on capital expenditure) must be verified by certificate of the company's own auditors in the following prescribed form: "We have examined the accounts attached, and compared them with the books and vouchers of the company. We certify that they are correct, and that they have been prepared strictly in accordance with the Memorandum of Instructions issued by the Railway Executive Committee with the approval of His Majesty's Government."

The actual work of investigation of these claims is conducted by two members of the staff of the nominated accountant, who are known as the investigators, and consists of an examination of the accounts submitted by the claimant company with the books and records of that company.

The report of the investigators is compiled under the supervision of the accountant from whose staff they are drawn, and consists of replies to a number of questions and the furnishing of specific information according to a form prepared by the Accountants' Sub-Committee. In addition the investigators are authorised and required to include in their report any relevant information which may not fall within the scope of the prescribed questions.

These reports are signed by the investigating accountant and the two investigators, and remitted to the Accountants' Sub-Committee with the account prepared by the company setting forth its claim.

The claims are examined by the Accountants' Sub-Committee with the aid of the Investigators' reports, and their decisions upon any questions raised in those reports are recorded in their minutes. As the result of these decisions a number of amendments have been made in the claims submitted. In the event of a company declining to accept a decision of the Accountants' Sub-Committee a reference is made to the Compensation Accounts Sub-Committee, consisting of two members of the Railway Executive Committee (now the standing Committee of General Managers) and members of the Accountants' Sub-Committee and the company is called upon to state its case. The decisions of this Sub-Committee are recorded by Minute.

Eventually the claims together with the Investigators' reports and copies of the Minutes of any decisions come to by the two Sub-Committees referred to are remitted to the Consulting Accountant.

The duties of the Consulting Accountant are set forth in the following letter from the Board of Trade to the late Mr. Gurney Fowler:—

7th December, 1914.

Sir,

"I am directed by the Board of Trade to advert to the arrangement which, as announced in the Press, has been made by His Majesty's Government with the Railway Executive Committee for the payment of compensation during the period for which railways in Great Britain have been taken over by the State.

"That arrangement is, briefly, that the aggregate net receipts during the period of the railways concerned are to be compared with

"a similar aggregate for the corresponding period of the previous year and that the ascertained deficiency is to be the amount of compensation due, subject, however, to the following proviso, viz.:—That, if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency is to be reduced in a like proportion.

"The question, therefore, arises as to the scope of the examination to which the accounts of the companies should be subjected on behalf of His Majesty's Government before payment is made.

"The accounts of all railway companies are believed to be at present subject to a complete and detailed audit which is entirely independent of the management of the companies, and arrangements will be made under which the statements on which the Exchequer payments are to be claimed will be examined and certified by these independent auditors.

"Having regard to the position and standing of the companies and to this check, the Board are of opinion that payment can properly be made upon such certificates subject to a general scrutiny on behalf of His Majesty's Government of the character referred to below.

"The procedure which is contemplated is that in the first place the companies themselves should prepare drafts of certain Instructions and Schedules for the preparation of the Accounts on lines already indicated to them. When completed these drafts will be submitted to the Government in order that they may be criticised and (if necessary) modified by the Board of Trade—who will at this stage consult the expert selected to scrutinise the Accounts, and by the Treasury. The Instructions, etc., will then be finally settled and issued through the companies to their Accountants who will prepare the Accounts on the lines thus laid down. When this has been done, the Accounts will in due course be audited by the professional auditors of the companies, and they will then be submitted to the Board of Trade with a view to the final payment of compensation. (The question of interim payments on account is a separate matter which need not now be considered).

"Before being finally passed for payment the certified claims will be referred to a consulting accountant whose duty it will be to satisfy himself that the principles laid down in the memorandum have been duly observed and generally to secure proper consideration of the methods adopted, more particularly in regard to such matters as depreciation and the allocation of charges between Revenue Account and Capital Account.

"The Board contemplate that the Consulting Accountant, while relying in the main on the certificates of the professional Auditors of the companies, and conducting detailed investigations only if and when questions arise in course of his examination which may appear to make such investigation necessary, should be generally responsible for seeing that the claims are in order.

"It is proposed that the Consulting Accountant should receive an inclusive fee of five hundred guineas for such period not exceeding twelve months as the present arrangements may continue. Such fee would cover all ordinary out-of-pocket expenses (which are not expected to be considerable) apart from those of special investigations on detailed audits, which if required would be separately arranged for."

"The Board would be glad if you would accept the position of Consulting Accountant on these terms.

"As already indicated, it is not intended that you should conduct a complete re-examination of all the accounts, but it would be desirable that you should satisfy yourself *prima facie* that the Instructions, etc., have been duly carried out, and

“ certain points such as the treatment of depreciation and maintenance, transfers to and from special funds, withdrawals of stock, and the allocation of charges for the month of August would require special attention. The correspondence between the Government and the companies giving further details would, of course, be placed at your disposal.

“ Sir William Plender would be willing to act with you in regard to the accounts of the companies to which Messrs. Price, Waterhouse and Company act as Auditors.”

I am, Sir,

Your obedient Servant,
(Signed) W. F. MARWOOD.

My examination of the claims has been based upon the documents submitted to me, and has been conducted by correspondence and by interviews either with the Accountants' Sub-Committee or with the companies themselves (except in a few cases of special difficulty, where I have through my representatives myself made an examination of the company's records).

A great variety and number of points have been brought before me involving a very voluminous body of correspondence, and I have also occasionally found it necessary to raise points not specifically referred to in the documents furnished to me.

As the result of the investigations of the Accountants' Sub-Committee and my own subsequent enquiries the companies have in a number of cases been required to amend their claims.

In the great majority of instances the companies have eventually acquiesced in my decisions, in a few cases a compromise (which in all cases of importance has had the specific approval of the Board of Trade)

has been effected, and there remain outstanding a relatively small number of disputed claims which may be referred for settlement to the Railway and Canal Commissioners.

My colleague and myself are now considering, with the Ministry of Transport, a number of questions which have arisen in connection with claims now under examination.

Since the formation of the Ministry of Transport members of their accountancy staff have accompanied the investigators in their investigations and have attended the meetings of the Accountants' Sub-Committee.

I have formed a high opinion of the skill and impartiality with which the Accountants' Sub-Committee and the Investigators have fulfilled the important duties devolving upon them.

Throughout the period of my appointment the Comptroller and Auditor-General has exercised a general supervision over my audit of the companies' claims.

He has, by his representative, attended from time to time at my office, and examined a number of accounts and the relative papers and correspondence. His representative has put questions with the view of acquainting the Comptroller and Auditor-General with the methods adopted for checking the companies' claims, and has expressed himself as satisfied with the information given to him.

In these observations, which I submit for the consideration of the Committee, I have purposely avoided any reference to details of the claims which have been or may be made by the railway companies, under their agreements with the Government, as any premature expression of opinion on my part might conceivably prejudice the amicable and equitable settlement of such claims.

APPENDIX XVI.

Submitted by Sir ALBERT WYON.

COPIES OF CERTAIN DOCUMENTS RELATING TO THE MEMORANDUM OF INSTRUCTIONS (BLUE BOOK).

(Vide Questions 3568—3569 in Minutes of Evidence, and Appendix I, Section III.)

- (1) Letter from Board of Trade (Railway Department) to the late Mr. J. Gurney Fowler, dated 18th December, 1914.
- (2) Copy of Draft Memorandum enclosed with (1).
- (3) Reply by Mr. Gurney Fowler to (1), dated 22nd December, 1914.
- (4) Reply by Board of Trade (Railway Department) to (3).
- (5) Memorandum prepared by Mr. J. Gurney Fowler on the draft Memorandum, with marginal notes of a discussion thereon at the Board of Trade on 31st December, 1914.
- (6) Letter from Board of Trade referring to a point discussed with Mr. J. Gurney Fowler on the 31st December, 1914.
- (7) Enclosure to (6).
- (8) Acknowledgment of (6).

(1)

Board of Trade
(Railway Department),
7, Whitehall Gardens,
London, S.W.
18th, December, 1914.

SIR,

With reference to your letter of the 8th December, in regard to your appointment as Consulting Accountant in connection with the railway companies whose undertakings have been taken over by the State, I am directed by the Board of Trade to transmit, for your consideration and observations, the enclosed copies of a draft Memorandum of Instructions to Railway Companies for the preparation of their accounts which has been forwarded to this department for approval by the Railway Executive Committee.

I am to add that the Committee desire that this approval may be given as early as possible in order that no time may be lost in advising the various companies concerned.

I am,
Sir,

Your obedient Servant,
(Signed) GARNEAM ROPER.

J. Gurney Fowler, Esq., F.C.A.,
Gresham College,
Basinghall Street, E.C.

(2)

RAILWAY EXECUTIVE COMMITTEE.

STATE CONTROL OF RAILWAYS.

DRAFT MEMORANDUM OF INSTRUCTIONS TO RAILWAY COMPANIES FOR THE PREPARATION OF THE ACCOUNTS TO BE PRESENTED BY EACH CONTROLLED COMPANY TO ARRIVE AT THE AMOUNT OF COMPENSATION PAYABLE BY HIS MAJESTY'S GOVERNMENT.

Agreement with Railway Companies.

1. His Majesty's Government have agreed with the railway companies concerned as follows:—

“To ascertain the compensation payable, the aggregate net receipts of all the railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year. The ascertained deficiency shall be the amount of compensation due. Provided that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency shall be reduced in the like proportion. Any question as to the amount of the deficiency shall, in default of agreement, be determined by the Railway and Canal Commission.”

This sum so payable as compensation, together with the net receipts of the railway taken over,

shall be distributed among the railway companies in proportion to the net receipts of each company during the period with which comparison is made.

Definition of net receipts.

2. For the purposes of this agreement, net receipts shall be taken to mean the net receipts covered by the first seven items in Account No. 8 of the First Schedule to the Railway Companies (Accounts and Returns) Act, 1911, and miscellaneous receipts (net) in that account shall not be included.

Revenue Account from 5th August, 1914.

3. For the period subsequent to the 4th August, 1914, each controlled company must compile an account of the gross revenue accrued during the control period.

Season Tickets.

(a) Season ticket receipts to be brought to account by each company in a similar manner to that adopted in 1913, i.e., whether upon a cash basis, or apportioned over the period of validity.

Mails.

(b) The sums received for the conveyance of mails for the quarter ended 30th September, 1914, to be apportioned between the two periods, namely:—

(1) 1st July to 4th August,

(2) 5th August to 30th September,

on the basis of the number of days in each, namely, 35 and 57 respectively.

Parcel Post Receipts.

(c) Parcel post receipts for the quarter ended 30th September, 1914, to be divided as under:—

(1) For the period 1st July to 4th August, 1914.

(a) Actual figure for the period to be ascertained from the Postmaster-General.

(b) The amount so arrived at to be apportioned between the British and Irish Pools in the same proportion as is shown in the settlement for the half-year ended 31st December, 1913.

(c) The amount so attributed to the British companies to be divided between the companies in the same proportions as are shown by the settlement for the half-year ended 31st December, 1913.

(2) For the period 5th August to 30th September, 1914.

(a) The balance of the receipts for the quarter to be apportioned between the British and Irish Pools in the same proportion as is shown in the settlement for the half-year ended 31st December, 1913.

(b) The amount so attributed to the British companies to be divided between the companies in the same proportions as are shown by the settlement for the half-year ended 31st December, 1913.

Bad Debts.

(d) Bad debts in respect of traffic originating prior to 5th August, 1914 (whether for conveyance, demurrage, cartage, &c.), to be borne by the companies concerned irrespective of the date at which the debts are ascertained to be irrecoverable. On the other hand, bad debts in respect of traffic dealt with during the period of Government control to be borne by the Government. A valuation to be included of the net loss of all bad debts not finally disposed of during the control period.

If a reserve is made in 1914 for bad and doubtful debts, &c., such reserve should not as a rule exceed the proportion which the charge in 1913 bore to the outstandings at the close of that year.

Provisions for estimated Revenue Liabilities.

(e) Subject to the operation of Instruction No. 32, suspending during the period of control divisions between companies of through traffic in which no non-controlled company is interested, each company, in determining the amount of revenue for the control period, must follow strictly the method which regulated the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913.

Expenditure from 5th August, 1914.

4. The expenditure chargeable for the control period must be ascertained as far as it is possible to do so, with the proviso that the amount charged for the renewal of permanent way and rolling stock is not to exceed the amount included in the corresponding period of 1913, except under special circumstances such as additions to the length of line opened, additions to rolling stock in service, or by an increase in the cost of renewal work carried out during the period resulting from increased price of labour and materials.

Apportionment of Sundry Items of Expenditure.

(a) The following charges for the half-year ending 31st December, 1914, to be apportioned to the control and non-control periods in proportion to the number of days in each such period:—

Clothing (all Expenditure Abstracts and Statements).
 General Charges—Abstract E.
 Rates and Taxes (all Expenditure Abstracts and Statements).
 Law Charges.
 Parliamentary Expenses.

Claims for Compensation—Goods and Parcels Traffic.

(b) Claims of all descriptions in respect of goods and parcels traffic originating prior to the 5th August, 1914, to be borne by the companies concerned irrespective of the date at which such claims are settled.

On the other hand, claims of all descriptions in respect of similar traffic dealt with during the period of Government control to be borne by the Government. A valuation to be included of claims outstanding at the end of the control period.

Provisions for estimated Expenditure Liabilities.

(c) In determining the amount of revenue expenditure for the control period, each company must follow strictly the method which regulated the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913. Particularly should this principle be observed in setting up reserves for depreciation or provisions for maintenance of locomotives, carriages and wagons, permanent way, bridges, stations, &c.

Stores Stocks.

(d) If stocks of stores were not physically taken and inventoried on the 4th August, 1914, a book figure as shown by the Stores Stock Ledgers to be used as evidence of the accuracy of the cost of stores and materials charged as having been used for revenue purposes, subject to correction where necessary if an intermediate stocktaking disclosed that issue prices did not correspond with cost. The measure of withdrawals from stores in advance of actual use should be equal at the beginning and end of the control period.

Arrears of Maintenance Work.

(e) A statement to be prepared at the end of the control period of the amounts not included in the accounts prepared currently for the purpose of obtaining payments on account of compensation, in respect of arrears of normal maintenance work deferred during the control period.

Published Accounts for 1913.

5. The net receipts (as defined) of each company appearing in the published accounts for the year 1913 must be used in arriving at "net receipts" for the corresponding period of control, and for the first six months of that year respectively.

Net Receipts for Half-year ended December 31st, 1913.

6. Method of arriving at the net receipts (as defined) for the half-year ended 31st December, 1913, to be as follows:—

Take the figure of net receipts (as defined) for year 1913 as per printed accounts and deduct therefrom the net receipts of J—Joint Lines, as per Account No. 10. This will give the net receipts of the company (as defined) for the year 1913
 From this must be deducted the net receipts (as defined) of half-year ended 30th June, 1913, adjusted as under:—

Deduct the amount of net receipts of J—Joint Lines, included in Account No. 10	£
Add the amount included in respect of charges for complete renewals of permanent way and rolling stock and provisions therefor (Abstracts A, B (1), (2), and (3))	
Deduct one-half of the amount shown in the printed accounts for the year 1913 for complete renewals of permanent way and rolling stock and provisions therefor (Abstracts A, B (1), (2) and (3))	£

This will give the net receipts of the company (as defined) for the half-year ended December 31st, 1913 £

Net receipts for corresponding Control Period in 1913.

7. Division of net receipts for half-year to 31st December, 1913, between corresponding control and non-control periods to be arrived at as follows:—

"Net receipts" (as defined) for the corresponding control period in 1913 to be arrived at by apportioning the net receipts of the half-year ended 31st December, 1913, on the basis of the ratio the total traffic receipts (Statement No. 10) for such corresponding period bears to the total traffic receipts for that half-year.

Division of Gross Railway Traffic Receipts for August, 1913.

8. Having regard to the varying conditions of the holiday traffics of the companies, it is not practicable to devise a uniform method of dividing the total traffic receipts of the month of August, 1913, between the corresponding control and non-control periods. Each company therefore to make such division in the manner which will, in their opinion, fairly apportion the total traffic receipts of that month to such periods, provided that 27/92nds of the amounts received for the conveyance of mails and parcel post for the quarter ended 30th September, 1913, be apportioned to the period 5th to 31st August.

Transfers for Reserves.

9. If transfers from impersonal accounts were made in 1913 for the purpose, for example, of increasing the provisions or reserves for bad and doubtful debts, renewals, pensions and provident funds, and such transfers were taken from accounts in credit created in earlier years and not required for the objects and purposes for which they were created, such transfers should not be allowed to affect the net receipts of the two years for comparative purposes.

Net Receipts for Half-year ended 30th June, 1914.

10. In giving effect to the proviso in the agreement with the Government that in the event of the aggregate net receipts for half-year ended 30th June, 1914, being less than for the corresponding period of 1913, the aggregate compensation payable by the Government shall be proportionately reduced, the net receipts for the half-year ended 30th June, 1914, to be adjusted by adding thereto the amounts charged in respect of renewals of permanent way and rolling stock for that period, and deducting therefrom one half of the total charges under those heads for the year 1914.

Interim accounts for the half-year ended 30th June, 1914, must be carefully reviewed with the view to their revision, if necessary, in order to ensure that they shall be prepared, for the purpose of the claim for compensation, on the same basis as the net receipts for the half-year ended 30th June, 1913.

Forms of Accounts for Control Period.

11. The accounts for the period of Government control in 1914 to be prepared in the same form and with the same detail as are required by the Statutory Form of Financial Accounts, so far as such form deals with the Revenue Statements and Abstracts preceding the heading "Miscellaneous Receipts (Net)" in Account No. 8, but omitting the Receipts and Expenditure of J—Joint Lines appearing in Statement No. 10 (Receipts and Expenditure in

respect of Railway Working). The expenditure incurred in "Watching, Patrolling, etc.," and "Payments to Families of Reservists, etc.," to be shown as separate items in Statement No. 10, after the item "Running Powers," and included in "Total Traffic Expenditure."

Statements as to Reserves.

12. The accounts to be submitted to the Board of Trade in support of the claim for compensation to be accompanied by Statements, in the form appended hereto, giving the particulars of all sums (a) provided out of, and (b) credited to, Revenue, which affected the reserves of the company for the years 1913 and 1914.

Certificates.

13. The accounts as submitted to the Board of Trade should have a certificate attached signed by the chief accountant, and by the auditors or the professional accountants of each railway company, somewhat on the following lines:—

We have examined the accounts attached with the books and vouchers of the company, and we certify to their correctness, and that they have been prepared strictly in accordance with the agreement entered into with His Majesty's Government and with the Memorandum dated 1914, issued by the Committee of Chief Accountants.

.....RAILWAY COMPANY.

GOVERNMENT CONTROL OF RAILWAYS.

COMPENSATION PAYABLE UNDER THE AGREEMENT MADE BETWEEN THE GOVERNMENT AND RAILWAY COMPANIES UNDER THE PROVISIONS OF THE REGULATION OF THE FORCES ACT, 1871.

Statement showing the transactions in the Reserves and Suspense Accounts of the Company which affected the Revenue of the years 1913 and 1914.

(Vide clause 12 of Memorandum of Instructions.)

Title of Account.	1913.		1914.		Basis on which amount provided has been calculated.
	Amount provided.	Amount expended.	Amount provided.	Amount expended.	
Depreciation and Suspense Accounts, e.g. :—					
Permanent way					
Stations					
Bridges					
Signals					
Ballast wagons					
Locomotives					
Locomotive machinery					
Carriages					
Carriage machinery					
Wagons					
Wagon machinery... ..					
Locomotive Coal, etc., wagons.					
Hydraulics... ..					
Steamboats					
Docks					
Electric power and light plant.					
Electrical machinery					
Etc., etc., etc.					
Reserve for bad and doubtful debts.					

(3)

22nd December, 1914.

The Assistant Secretary
(Railway Department),
Board of Trade,
7, Whitehall Gardens, S.W.

Dear Sir,

R. 13676.

I am in receipt of your letter of the 18th instant enclosing two copies of the draft memorandum of instructions to railway companies for the preparation of their accounts, framed by the Railway Executive Committee.

I have carefully perused the same, and, so far as I can form an opinion at the present stage, the instructions seem to me to meet all the points which are likely to arise.

I judge from Clause 6 thereof that the Joint Lines therein referred to will be treated as separate undertakings.

I would point out that in paragraph 13 it might be read that the certificate has to be signed by one of three persons, viz., the chief accountant, the auditors, or the professional accountants, whereas I believe it is the intention that the certificate should be signed by the chief accountant and countersigned by the auditors or professional accountants of the company.

Yours faithfully,
(Signed) J. GURNEY FOWLER.

(4)

Board of Trade
(Railway Department),
7, Whitehall Gardens,
London, S.W.
24th December, 1914.

Sir,

Referring to your letter of the 22nd December, respecting the draft memorandum of instructions to railway companies for the preparation of their accounts under the Agreement with His Majesty's Government, I am directed by the Board of Trade to state that they note that an amendment is necessary in Clause 13 of the memorandum, with respect to the signing of the certificate to be attached to the accounts.

I am to add that, as you assume, Joint Committees whose accounts are included in Abstract J in the statutory form will present separate accounts.

I am, Sir,
Your obedient Servant,
(Signed) W. F. MARWOOD.

J. Gurney Fowler, Esq., F.C.A.,
Gresham College,
Basinghall Street, E.C.

(5)

Note by Sir A. Lowe Dickinson.

Discussed by J. G. F. with Marwood of Board of Trade, 31st December, 1914, and result noted in margin.)

Draft.

RAILWAY COMPENSATION COMMITTEE.

State Control of Railways.

COMMENTS upon Draft Memorandum of Instructions to Railway Companies for the preparation of the accounts to be presented by each controlled company to arrive at the amount of compensation payable by His Majesty's Government.

Agreement with Railway Companies.

The agreement is not quite clear in the following respect. It provides that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of the year 1913, the ascertained deficiency (being the amount by which the aggregate net receipts during the controlled period fall short of the aggregate net receipts during the corresponding period of the preceding year) shall be reduced in the like proportion. There appears to be some doubt as to the manner in which this reduction is to be made. Take the following example:—

	£	
Aggregate net receipts from 5th August to 31st December, 1913, say	1,000,000	
Aggregate net receipts from 5th August to 31st December, 1914, say	750,000	
Ascertained deficiency	250,000	
Aggregate net receipts January to June, 1913	1,000,000	
Aggregate net receipts January to June, 1914	900,000	
Falling off = 10 per cent.	100,000	

Nothing to
be done.
J.G.F.

On the strict reading of the agreement the ascertained deficiency of £250,000 would be reduced in like proportion to the falling off in respect of £1,000,000, i.e., 10 per cent., and the amount of compensation due would therefore be £250,000 less 10 per cent. = £225,000. On the other hand, in equity it should be reasoned that if the net receipts from January to June, 1914, have shown a falling off of 10 per cent. as compared with those from January to June, 1913, the net receipts in the controlled period from 5th August to 31st December, 1914, might also have been expected to show a reduction of 10 per cent. as compared with the corresponding period of 1913. If, therefore, the aggregate net receipts from 5th August to 31st December, 1913, are £1,000,000, the expected amount from 5th August to 31st December, 1914, would be £900,000

The actual receipts for this latter period being £750,000

The compensation due would be £150,000 instead of the amount determined above on the proportion basis of £225,000, in other words, a strict interpretation of the wording of the agreement, "the ascertained deficiency shall be reduced in the like proportion," would give to the railroad companies in the assumed case a sum of £75,000, or 50 per cent. in excess of what would appear to be just. To take an extreme case, if the reduction shown by a comparison of the two January to June periods and the two August to December periods were exactly the same proportion, say 20 per cent. in both cases, on the first method the compensation due would be the actual deficiency less 20 per cent., while on the second method there would be no compensation due at all for the reason that the aggregate net receipts had shown no falling off other than what might have been expected from a consideration of the results from January to June, 1914, as compared with the same period in 1913.

Bad Debts.

It may quite well happen that debts arising out of traffic originating in the control period, which at the end of that period when the accounts of the Government are settled, may appear to be good, may subsequently be found to be bad, while on the other hand the memorandum provides that all bad debts in respect of traffic originating prior to the control period at whatever date the same may be found to be bad, are to be borne by the companies, and not treated as an expense of the control period. This condition might operate somewhat unfairly as against the railroads unless they are allowed at the end of the control period to provide a general reserve upon the debts incurred during the control period based upon normal experience in the past. Even then, moreover, debts in respect of traffic originating during the control period might become bad after the control period by reason of war conditions, to an extent greater than the normal, and in such cases under the provisions of the memorandum it would appear that this loss must be borne by the companies.

Agreed by
Railways,
their own
suggestion.

Expenditures for Renewal of Permanent Way and Rolling Stock.

The memorandum provides that "the amount charged for the renewal of permanent way and rolling stock is not to exceed the amount included in the corresponding period of 1913, except under special circumstances as additions to the length of line open, additions to rolling stock in service or by an increase in the cost of renewal work carried out during the

period resulting from increased price of labour and materials."

One of the most important factors in the determination of the proper charges for renewals is the amount of use to which the permanent way and rolling stock has been subjected, the usual measure of such use being engine or train miles or both. In determining, therefore, the proper charge to be made in the accounts, it would seem that the number of train miles in the control period, as compared with the corresponding period in the preceding year, should be taken into account as one of the factors which might justify an increase in the amount of such charges, or might require a decrease if the train mileage should happen to have been reduced. If the train mileage during the control period should have been very materially increased there can be no doubt that increased renewal charges in respect of this period must eventually be necessary, even if such charges have not been incurred during that period, and in such a case it would seem in justice to the railroads that they should be permitted to make reserves for the deferred cost of maintenance appertaining to the larger traffic carried.

Provisions for Estimated Expenditure Liabilities.

The same considerations as have been noted as being applicable to the charges for renewals would also apply to the provision of reserves for depreciation or maintenance. The memorandum provides that in preparing the accounts for the control period, "each company must follow strictly the method which regulated the preparation of the accounts in 1913, and provisions to be made should be proportionate to the sums necessary for the half-year ended 31st December, 1913." If as a result of the greater use of the railroads by the Government the train mileage during the control period has considerably increased, it would seem fair and reasonable that increased rather than proportionate sums should be allowed for depreciation, etc.

Stores Stocks.

The memorandum provides that "the measure of withdrawals from stores in advance of actual use should be equal at the beginning and end of the control period. It is difficult to understand the meaning of these words. In our railroad experience stores which have not been actually used remain, so far as the accounts are concerned, in stores stocks, and no charge to traffic expenses is made until the stores have actually been used. Some railroads, however, have a practice of ascertaining the quantities of their stores stocks at a date preceding the close of the half year, say November 30th, and in some such cases it is customary to estimate the amount of the charge to be made to traffic expenses for stores used during the month of December, the actual charges not coming forward until after the accounts for the half year have been completed. It may be that it is to this condition that the words quoted in the beginning of this paragraph referred. In any case it would seem desirable that its meaning should be more clearly defined.

Net Receipts for half-year ended December 31st, 1913.

Under this heading the Memorandum provides a method for arriving at the net receipts for the half-year ended December 31st, 1913, and after deducting the amount of net receipts of J lines included in account No. 10, provides for the addition of "the amount included in respect of charges for complete renewals of permanent way and rolling stock and provisions therefor (Abstracts A, B 1, 2, and 3.)" The wording of this paragraph is not sufficiently precise. Abstract A, to which reference is made, contains no account heading of "Complete Renewals of Permanent Way," but it does contain a main heading of "Maintenance of Permanent Way" with two sub-headings entitled "Renewal of Running Lines" and "Repair of Running Lines and Sidings." The presumption is that it is the item "Renewal of Running Lines" which is to be added to the net receipts of the half-year, and one-half of which for the whole year is to be deducted therefrom. Abstracts B 1, 2 and 3 contain headings for "Com-

plete Renewals" for locomotives, carriages and wagons respectively, and presumably it is these items to which reference is made in this case. The wording of this paragraph should be altered so that it may specify with greater clearness exactly which items are referred to; the paragraph as it stands at present is certainly open to the construction that the whole of the expenditures contained in the Abstracts A and B 1, 2 and 3 are intended.

Provision of Gross Railway Traffic Receipts for August, 1913.

Under this heading the Memorandum provides *inter alia* "that $\frac{3}{4}$ of the amounts received for the conveyance of mails and parcels post for the quarter ended 30th September, 1913, be apportioned to the period 5th to 31st August." On page 2 of the Memorandum, in dealing with mails, it is provided that the sums received for the conveyance of mails for the quarter ended 30th September, 1914, be apportioned between the two periods, viz., (1) 1st July to 4th August, (2) 5th August to 30th September, on the basis of the number of days in each, viz., 35 and 57 respectively. The provisions with regard to 1913 deal with an apportionment for the month of August only, but do not state how the amount for the month of September is to be arrived at. Presumably this is to be arrived at on the same basis, viz., $\frac{3}{4}$ of the amounts received for the quarter ended 30th September. It is submitted, however, that this should preferably be stated in the Memorandum.

Net Receipts for half-year ended June 30th, 1914.

Clause 10 of the Memorandum contains the words "to be adjusted by adding thereto the amounts charged in respect of renewals of permanent way and rolling stock for that period and deducting therefrom the half of the total charges under those heads for the year 1914." The wording in this case differs not only from that contained in the form of annual accounts, but also that used in an exactly similar connection in respect of the net receipts for the half-year ended December 31st, 1913, to which reference has already been made. The wording in the two Clauses should be identical and should be clearly expressed so as to define exactly the heading of the account to which reference is made.

(6)

Board of Trade.

Whitehall Gardens, S.W.,

5th January, 1915.

Dear Mr. FOWLER,

Referring to our conversation on the 31st ultimo with regard to Section "D" of the 4th paragraph of the Instructions as to Railway Companies' Accounts, I enclose a copy of a letter from Sir William Plender which I think answers the point you raised.

Yours faithfully,

(Sd.) W. F. MARWOOD.

J. Gurney Fowler, Esq.

(7)

(Enclosure.)

Deloitte, Plender, Griffiths & Co.,

5, London Wall Buildings,

London, E.C.

4th January, 1915.

W. F. Marwood, Esq., C.B.,

Board of Trade,

Whitehall Gardens, S.W.

Dear Mr. MARWOOD,

In reply to your letter of the 31st ultimo.

Your reading of the last sentence of Section "D" of the 4th paragraph of the Memorandum of Instructions is correct. It will be within your knowledge that the various spending departments of a railway, such as the engineering and locomotive departments, withdraw material from the stores department in anticipation of actual use. For instance, rails, sleepers, chairs, etc., would be withdrawn from stores and charged directly against

Agree, but doubtful if train mileage kept.

As above.

Writing—Plender who put this in.

Writing—Chairman to define more definitely.

Means same although wording different.

Writing—Chairman define clearly.

Abstract "A," although at the time of such entry they had not actually been put into the track. Again, the locomotive carriage and wagon shops must always withdraw certain materials in advance of actual use, and stores supplied to subsidiary depots are also frequently charged as expenditure although consumed subsequently.

The intention of the Instruction is merely to safeguard the Government against any abnormal withdrawal of stores at the end of the control period as compared with the beginning, as its effect would be to overstate expenditure and so unduly increase the amount of the deficiency payable by the State.

I am, etc.,
(Signed) W. PLENDER.

(8)

6th January, 1915.

Dear Mr. MARWOOD,

I am in receipt of your letter of yesterday enclosing copy of one from Sir William Plender which is entirely explanatory.

Since seeing you I have made inquiries of one of the larger railways, and find that the course there adopted is as mentioned by Sir William Plender. In the case of another railway, I understand that, while materials are drawn in advance of requirements, no stock has been kept of these; it will therefore be difficult in this case to ascertain whether or not the stock at the end of the period is more or less than it was at the beginning.

Yours faithfully,

(Signed) J. GURNEY FOWLER.

W. F. Marwood, Esq.,
Board of Trade,
Whitehall Gardens, S.W.

APPENDIX XVII.

Submitted by SIR ALBERT WYON.

LETTERS AND DOCUMENTS RELATING TO THE INCEPTION OF THE "PINK BOOK."

(Vide Questions 3119, 4311, 4377, and 4573 in *Minutes of Evidence and Appendix I, Section VII.*)

- (1) Memorandum (undated) by Sir Alexander Butterworth.
- (2) Letter, dated 24th February, 1916, to Sir J. Bradbury, signed by Mr. Gurney Fowler and Sir William Plender, commenting on (1).
- (3) Letter, dated 31st May, 1916, from Mr. Wyon to Sir J. Bradbury as to rate of interest to be allowed on additional capital expenditure.
- (4) Letter, dated 26th June, 1916, from Sir T. Heath to Mr. Wyon, enclosing (5) and (6) and asking for report thereon. (Reply is No. (8).)
- (5) (Enclosure (1) to (4).) Draft of proposed letter to be addressed to Railway Executive Committee by Board of Trade setting forth suggested terms of new clauses interpreting and amplifying the agreement of 1914.
- (6) (Enclosure (2) to (4).) Draft of proposed letter to be addressed to controlled railway companies by Railway Executive Committee, asking whether they are prepared to accept the proposed new clauses.
- (7) Letter, dated 23rd June, 1916, from Sir Alexander Butterworth to Sir Thomas Heath regarding certain points arising out of the draft new clauses.
- (8) Letter, dated 15th July, 1916, from Sir William Plender and Mr. Wyon to Sir T. Heath, in reply to (4), reporting on proposed new clauses.
- (9) Letter, dated 19th July, 1916, from Sir T. Heath to Mr. Wyon, in reply to (8), asking for further observations.
- (10) Letter, dated 21st July, 1916, from Sir William Plender and Mr. Wyon to Sir T. Heath, in reply to (9).
- (11) Letter, dated 20th September, 1916, from Accountants' Sub-Committee to Mr. Wyon, enclosing (12).
- (12) (Enclosure to (11).) Draft regulations, prepared by Accountants' Sub-committee in respect of claims for interest on capital expenditure.
- (13) Letter, dated 29th September, 1916, from Sir William Plender and Mr. Wyon to Accountants' Sub-committee, approving draft regulations (No. 12), subject to small amendment.

(1)*

Sir John Bradbury.

POINTS ARISING UPON THE AGREEMENT BETWEEN CONTROLLED RAILWAY COMPANIES AND THE GOVERNMENT.

1. *Capital Expenditure.*

When the agreement was entered into it was anticipated that the control would only last for a short period, and it was not thought necessary to make any provision with respect to capital expenditure. In consequence of the prolongation of the control, this is causing a hardship to many companies, for while the Government is getting the benefit of expenditure which yielded no return in 1913, the companies have to pay interest or dividend upon the capital raised and are receiving no revenue wherewith to meet these payments. Theoretically the revenue or saving derived from such expenditure ought to be excluded from the calculation of net revenue, on the principle that what is not in the accounts of the base year (1913) should not be brought into the accounts for the control period (1915). This, however, is not practicable, and the suggestion of the Executive Committee is that, upon all capital expended upon additional lines, works, rolling stock, etc., which have been brought into use since 31st December, 1912, or shall hereafter during control be brought into use, the companies shall be allowed interest at an agreed rate from the commencement of the control period or from the date at which the works or plant were brought into use, as the case may be. Works of exceptional magnitude, especially where the expenditure dates back a long way or yields a return very slowly, may require to be specially considered, but it is submitted that the majority of cases may be properly dealt with on the lines suggested. At any rate, if the principle is admitted—namely, that a company is entitled to an allowance for capital expenditure which has become productive since the "corresponding period" (i.e., the period in 1913 with which the accounts of the control period are compared)—it is thought that the accountants will be able without serious difficulty to draw up simple rules which will be applicable to the great majority of cases.

* I understand that this memorandum was prepared by Sir Alexander Butterworth and sent to Sir J. Bradbury, who handed it, or a copy of it, to Mr. Gurney Fowler.—E.T.

2. *Stores.*

A question has arisen with regard to what the position of the companies will be at the end of the control with regard to their stores. In the accounts presented to the Government the companies have given the Government the benefit of the stocks bought by them before the war or at pre-war prices, believing this to be in accordance with the view of the Government advisers. It is submitted that at the end of the control period hardship will ensue unless the point is safeguarded, for the companies run the risk of finding themselves burdened with stocks of materials, etc., purchased during the control period at inflated war prices. There is some difference of opinion as to the effect of the agreement as it stands, but it is submitted that in the circumstances the fair thing is that the companies should find themselves at the end of the control in the same position as they were at the beginning in regard to both quantity and price—in other words, that they should be treated as if during the control period they were working the railways for the Government at Government cost, and were buying on behalf of the Government at current prices all stores required for that purpose.

It is suggested that the simplest way of giving effect to this would be for the Government at the end of the control period to make a cash payment equal to the difference between the cost of the stores and materials in stock at 5th August, 1914, and the cost of similar quantities of stores and materials at the end of the control period, such payment being based upon the stock prices at the beginning of the period and the market prices at the end. If this were done, the companies would be left in the same position financially as if they had warehoused all their stores when the control began and kept them in warehouse until the control was over, buying all necessary materials on Government account in the interval.

In this connection it should be remembered that, in some instances—notably timber—the Government are not only having the advantage of the companies' pre-war contracts, but are benefiting by the fact that the stocks of the companies were to a large extent already seasoned, and, therefore, worth considerably more than the sum paid for them. Such cases would probably require special consideration. Coal also might require to be dealt with specially in those cases where stores have been left in stock throughout the war.

It is submitted that, whatever might be thought to be the most suitable arrangement if the main agreement were to be construed in the way contended for by the railway companies, the arrangement above suggested is the only fair one if the agreement is to be construed in a way that for practical purposes deprives the companies of the surplus receipts which might otherwise accrue to them.

3. The Proviso.

The "proviso rebate" (as it has been called) was imposed upon the companies by the Government on the ground that, as the net receipts of the aggregated companies were less for the first half of the year 1914 than for the first half of the year 1913, it is reasonable to assume that, in the absence of the Government control, the net receipts for the period of the war would be less than for the corresponding period of the year 1913. It is not too much to say that this reduction in the amount of compensation would have been strenuously resisted by the companies had there been any anticipation of the enormous amount of work they have been called upon to perform in connection with both "commercial" and "military" traffic. It may be fairly assumed, indeed, that, had the Government had any such anticipation, the "proviso" would not have been suggested by them when considering the terms of the agreement. If this be so, it does not appear to be unreasonable to ask for its cancellation when discussing with the Government the interpretation to be placed upon the agreement in the matter of surplus net receipts during the period of control.

4. Inclusion of 100 per cent. of War Bonus in Working Expenses.

So far as the railway companies are aware, no attempt has ever been made to justify on any logical grounds the exclusion from working expenses of 25 per cent. of the war bonus paid to certain grades of railwaymen. It was urged upon them at the time that strong grounds of expediency then existed for that course, but presumably those have now ceased to exist, and in any review of the agreement the inclusion of the whole of the first war bonus in working expenses seems a mere act of justice, while a discrimination between the first and the second war bonus seems as difficult to justify as a discrimination between different grades of railwaymen.

If it be urged that the companies received a *quid pro quo* by the withdrawal of the proviso, the Executive Committee would refer to what has been said above with reference to the proviso; if there was in fact no real justification for the insertion of the proviso in the first instance (although at the time both parties may have honestly thought otherwise), its withdrawal cannot be said to have constituted a *quid pro quo*, when the companies agreed, under strong pressure, to bear 25 per cent. of the war bonus paid to certain grades of their employees.

5. Charges for Renewal of Permanent Way and Rolling Stock.

The present regulations as to renewals are thought to press hardly on certain companies, especially on what are called "non-programme companies," i.e., companies which do not work on any fixed programme in providing for renewals of permanent way or rolling stock, but whose practice it is to charge to working expenses either the actual amount expended upon such renewals, or an indefinite sum according to circumstances.

As the regulations stand to-day, they provide (subject to the arrangement with regard to arrears of maintenance) that, if such a company spends more on renewals in the control period than it spent on the corresponding item in 1913, the excess is to be disallowed, whereas, if it spends less, its charge against the Government is limited to its actual expenditure. On the face of it this seems a one-sided

arrangement, and it is suggested that in such cases the company might fairly be allowed to charge as much as was included in the accounts of 1913, irrespective of actual expenditure, after making allowance, as in other cases, for increased rates of wages and prices of materials.

A further point arises, in the case of both "non-programme companies" and of certain "programme companies," which calls for consideration, viz.: how far it is open to a company to include a charge in its accounts for renewals in respect of additions to rolling stock or mileage of line. The present Regulations, though it is believed that such a charge was always contemplated, are not entirely clear on the point, but it is submitted that it should be open to all companies, "programme" or "non-programme," to make such a charge—that is to say, to increase the amount which it would otherwise be open to them to charge for renewals by a sum representing the addition to rolling stock or permanent way, as the case may be. The mode of calculating such sum, so as to insure its being fairly proportionate to the additional plant, is a matter which, it is suggested, might be left to the technical advisers on each side.

6. Allowances to Dependents.

At the beginning of the war it was agreed with the Board of Trade that, as the companies were not paying the salaries or wages of men who enlisted, they should be at liberty to supplement the separation allowances paid to their families, and charge the amount of such supplement in their working expenses up to a limit of 10s. per week in each case. The companies are accordingly paying to the families and dependants of such of their men as have enlisted sums sufficient to bring their separation allowances up to four-fifths of each man's salary or wage. In view of what is being done for the families of men in Government Departments who enlist, and in view of the fact that the railway companies are including in their account against the Government no part of the salaries or wages of unmarried men without dependants, it is submitted that there is no sufficient ground for the limit of 10s., and that the companies should be allowed to include the whole of the supplement paid by them in their working expenses, up to four-fifths of salary or wage.

In the foregoing remarks no attempt has been made to deal with the various proposals in detail. The object of the present memorandum is to enumerate the principal points which are thought to call for consideration, and to indicate briefly the justification for the proposals. If these proposals are agreed to in principle, it will not be a difficult matter for the expert advisers on each side to draft a short code of subsidiary regulations giving effect to them.

There are one or two other matters to which, perhaps, it may be as well to refer here, so that they may not be lost sight of. One is the percentage addition to be allowed in respect of arrears of maintenance of rolling stock and permanent way for the year 1916. It has been agreed that 12½ per cent. shall be allowed up to 31st December, 1915, but since that arrangement was come to prices have advanced very materially. Another is the question of arrears of maintenance of steamboats which have not been commandeered by the Admiralty or War Office. It does not seem possible to devise any formula for calculating these arrears currently, as in the case of rolling stock and permanent way, and the only way of dealing with the matter appears to be to note the fact that there will be claims under this head, and that they will be treated as being in principle identical with the other claims for arrears of maintenance, leaving the amounts to be settled at the conclusion of the period of control. A third point that calls for attention is the fact that 1916 is Leap Year; the companies consider that they are entitled to a proportionate addition to the net receipts in respect of the additional day.

(2)

London, E.C.
24th February, 1916.

Sir John Bradbury, K.C.B.,
The Treasury,
Whitehall, S.W.

Dear Sir JOHN BRADBURY,

STATE CONTROL OF RAILWAYS.

We have carefully read the Memorandum of "Points arising upon the agreement between Controlled Railway Companies and the Government" and have given particular consideration to the following matters:—

- (a) Allowance for capital expended on additional lines, works, rolling stock, etc., which have been brought into use during or subsequent to the year 1913.
- (b) The treatment of stocks of stores and material at the end of the control period.

(a) *Allowance for Capital Expenditure.*

The views of the Railway Executive appear to be reasonable that consideration should be given to those companies which have introduced into their system additional capital assets during or subsequent to the year 1913.

The principle can hardly be controverted that if it were possible to ascertain the additional revenue or reduced working expenses affecting the net receipts of the control period, arising from the introduction of new assets, the amount should be eliminated from the net receipts of such period to ensure a true comparison with those of the basic period. As the ascertainment, however, of such additional earnings or savings is not possible, the fair alternative appears to be that interest should be allowed at an agreed rate on expenditure chargeable to capital in respect of lines, works, rolling stock, etc., as and when brought into use.

Rate of Interest on Capital Expenditure.

Sir Alexander Butterworth, in his letter to Sir Thomas Heath, of the 13th ultimo, suggested a rate of 5 per cent. as being reasonable. In our view, however, the rate of 4 per cent. would be a fairer one to adopt and the members of the Finance Subcommittee of the Railway Executive intimated after discussion that they would be prepared to agree to this rate being fixed for the period to 31st December, 1915.

(b) *Treatment of Stocks and Stores and Material at the end of the Control Period.*

The suggestion of the Railway Executive Committee that the companies should not be prejudiced through giving the Government the benefit of their stock of materials, stores, etc., bought at pre-war prices, does not appear to be unreasonable and, in our opinion, the difference between the book value of stocks of stores and material at the beginning of the control period and the book value of stores of a similar quantity and description at the end of the control period should be allowed for. From this it follows that, if any of the stocks held at the end of the control period are in excess of the quantities at the beginning, such excess should not be allowed for.

It has been suggested that special consideration should be paid to timber, but we think that once the broad principle of allowing to the companies the difference on book values is conceded, the subsidiary question of timber and enhanced value should not be raised. The Railway Executive seemed to share this view when the matter was discussed.

We have refrained from making any attempt to define with exactitude the methods of arriving at the capital expenditure upon which interest should be allowed or of dealing with the stores in any detail. If the principles are agreed to, the details may well be left to the Executive and to ourselves to settle, if you are agreeable.

Though our views were not specifically invited on other questions referred to in the Memorandum

drawn up by the Executive, we venture to submit them in case they should be of use to you.

(1) *The "Proviso."*

It is not clear that the assumption underlying the imposition of the "Proviso deduction" can be held to apply if succeeding years show such an improvement in working results as to suggest that the wave of depression in the first half of 1914 had been stayed. This is said to be the fact. If, therefore, the "Proviso deduction" was waived in 1915 on the grounds of being no longer warranted by the circumstances of 1915, then the claim of the Railway Executive, that its withdrawal was not a "quid pro quo" to their assuming the burden of 25 per cent. on the war bonus, would appear to be justified.

(2) *War Bonus.*

It would seem that, apart from any question of general policy, the companies should be allowed to charge the whole amount of the bonus as a working expense. If the companies had been operating the railways for their own benefit, any additional wages paid would have had to be borne as a working expense, but in ordinary times the railways would have resisted as unwarrantable such demands as that for the payment of the war bonus. It may not be unreasonable to suggest, therefore, that the companies in paying these higher wages, as they were directed to do, have only done what was essential to the continuous working of the railways under exceptional economic conditions and have been acting as agents for the Government.

(3) *Charges for Renewal of Permanent Way and Rolling Stock.*

As the principle has been recognised by the Government that the railway companies should be allowed to charge arrears of maintenance, it would appear to us to cover the suggestion in the memorandum that "non-programme" companies should be allowed to charge as renewal expenditure as large a sum as they included in their accounts for 1913.

With regard to the further point, that companies should be allowed to charge in their accounts for renewals in respect of additions to rolling stock or increased mileage of line, our view is that such a charge is proper and in accordance with the spirit of Clause 4 of the original memorandum of instructions.

It would seem to be desirable, however, that the point should be agreed, apart from the arrears of maintenance arrangement, in order that both "programme" and "non-programme" companies may be treated on identical lines in the matter of renewals.

(4) *Allowance to Dependants.*

The claim that the companies shall be permitted to charge the full allowances made by them to families and dependants of men who have enlisted, in order to bring the separation allowance up to four-fifths of each man's salary or wage, appears to be one upon which arguments could be fairly advanced on both sides. It is a question, perhaps, rather of policy than of principle. It may be said on the one hand that the Government has already assumed a sufficient burden in regard to these men; but on the other hand, it may fairly be conceded that the granting by the railway companies of so large a proportion of the existing wage had a material bearing upon the satisfactory response of railwaymen to the appeal for recruits, and, therefore, the full amount should be allowed as a charge against the Government. Had the railways not been taken over by the State but operated by the companies, this additional charge would have been borne by revenue as an ordinary working expense, and, on that ground, it may reasonably be said that it should stand as a working expense during the period when the railways are operated under the direction of the State.

(5) *Percentage addition to Claim for Arrears of Maintenance for the year 1916.*

If the average prices paid for similar services and materials in the year 1916 are greater than those for 1915 when 12½ per cent. was allowed, it would appear

to be equitable to allow an increased average percentage based upon any further ascertained difference in prices.

(6) *Steamboats.*

We concur in the suggestion, that any claim for arrears of maintenance in regard to steamboats should be left for consideration when the full circumstances can be reviewed in their proper perspective.

(7) *Additional day in 1916.*

The proposal that the net receipts for the year 1916 should be rebated by 1/366th part thereof so as to obtain a true comparison with the net receipts of 1913 has, after discussion with the Executive, been abandoned by them.

We are informed that the principle of crediting to railway revenue all percentages added for "profit" and establishment charges in respect of work performed for Government Departments, armament firms, etc., has been clearly laid down and, as far as is known to the Executive, has been followed.

We are,

Yours faithfully,

(Signed) J. GURNEY FOWLER.
W. PLENDER.

(3)

31st May, 1916.

Sir John Bradbury, K.C.B.,
The Treasury,
S.W.

Dear Sir JOHN BRADBURY,

STATE CONTROL OF RAILWAYS.

Interest on Capital Expenditure.

Sir William Plender has sent on to me a copy of your letter to him of the 26th inst. and of the letter from Sir A. Kaye Butterworth to Sir Thomas Heath which accompanied it.

I understand that the suggestion made is, that the companies shall receive interest upon expenditure on new capital works at the rate of 4 per cent. per annum from the several dates at which those works are first brought into productive use. In my view, the suggestion is one which might well meet with acceptance, and I see no objection to the proposal that the rate of interest to be allowed shall be fixed at 4 per cent. for the period of control.

Yours very truly,

(Signed) ALBERT W. WYON.

(4)

Treasury, S.W.
26th June, 1916.

Dear Mr. WYON,

With reference (1) to the report by Sir William Plender and Mr. Gurney Fowler dated 24th February, 1916, on the memorandum submitted by the Railway Executive Committee of points arising upon the agreement between the controlled railway companies and the Government, and (2) to your letter of 31st May recommending the acceptance of a later suggestion by Sir Alexander Butterworth that the rate of interest on new capital expenditure on works should be fixed at 4 per cent. not only for the period to 31st December, 1915, but for the whole period of control, I have now to acquaint you that further interviews have since taken place between the Treasury and Sir A. Butterworth, with the result that the latter has submitted for approval, as suggested, formal steps for agreeing upon new clauses to interpret and amplify the original agreement: (1) a draft of a letter which might be written to the Railway Executive Committee by the President of the Board of Trade on behalf of the Government, (2) a draft of a letter which might be sent out by the Railway Executive Committee to the railway companies inviting them to come into the settlement. I send copies of these documents herewith, and I

write, on behalf of the Treasury, to ask you to be so kind as to consider them and report whether the drafts are such as the Treasury might properly agree to.

I should add a few further explanations with reference to an interview which I had with Sir A. Butterworth on Friday last.

Some of the things mentioned in our conversation are set out in another letter from Sir A. Butterworth to me of the 23rd instant, of which I also enclose a copy. With regard to the paragraphs of this latter letter, I may explain as follows:—

5. This relates to paragraph 5 in the draft letter to the Railway Executive Committee. The clause is at present left blank pending further discussion between the Government Departments concerned and the officers of the Railway Executive Committee, the object of which is to agree on a clause defining exactly the cases in which goods and passenger traffic is to be paid for, and those in which it is to go free and be charged through the deficiency. I think, therefore, you need not trouble about this clause at present.

With regard to Sir A. Butterworth's last paragraph, I should explain that the "rents" question relates to rents for storage accommodation provided by the companies for the War Department—a question which does not come into our present discussion. The question of the rates of Income Tax to be deducted from interest on capital payable by His Majesty's Government must, I presume, be decided by the Inland Revenue Authorities, but on the merits it would seem that the view expressed by Sir A. Butterworth is the equitable one.

I now come to the observations which I have to make on the draft letter to the Railway Executive Committee.

Clause 1.—Capital Expenditure.

The words "and also the land used in connection with works" in the bracket are new. So also is the whole of "(2) mineral support acquired . . . in fact been so charged" and the references to "mineral support" later on in the clause. We should be glad of your views on the propriety of these additions.

As regards the period for which 4 per cent. was to be fixed as the rate of interest payable by the Government on the new capital spent on works, you will remember that Sir A. Butterworth himself suggested that it should be the whole period of control. It appears, however, that the Committee were divided as to the acceptance or non-acceptance of this period, and consequently the original proposal was replaced. I am disposed to think we ought to insist on the 4 per cent. being now fixed for the whole period—assuming that you do not think that we could have got the rate down below 4 per cent. for the period after 31st December, 1915? But we should be glad of your advice. Sir A. Butterworth thought that, if we insisted on the 4 per cent. being fixed for the whole period, it would "sweeten" the decision to the companies if in the last sentence of the clause the Government would put in "90 per cent" after "forthwith" and substitute "30th June, 1916," for "31st December, 1915." I am not sure that this is necessary. In any case I think we must stipulate that the 90 per cent. of the total interest to 31st December, 1915, or 30th June, 1916, is to be paid, not in one lump, but in three or four monthly instalments.

Clause 2.

Paragraph 2 "Where at the end of the Government control . . . materials to the company" is new, and I felt doubts about it. Sir A. Butterworth said it was only to meet the case of one company (apparently the South-Eastern) who had been ordered by the War Office to lay in a stock of coal largely in excess of anything they were accustomed to keep. He suggested that you should discuss the matter with the general manager or the accountant of the company.

We should be much obliged for your advice as to the propriety of the whole clause, and of this paragraph in particular.

Clause 3.—Allowances to dependants.

I noticed from some former papers that the allowance in the case of non-commissioned officers and men was limited to such an amount as would make up the total receipts to *not more than four-fifths of salary or wages*, and I think we must have these words put in. I have not yet received copies of the circular letters Nos. 274, 277, 288 or 321 referred to, and therefore do not know what the payments to commissioned officers are.

Clause 4 seems all right, but, as regards *Clause 6*, I would call attention to Sir A. Butterworth's letter (paragraph 6). No doubt the companies ought to pay interest in these cases; but I do not know at what rate (if any) Government now pays interest to the companies in cases where there is delay in payment for work done at cost price. Do you know?

In the draft letter from the Railway Executive Committee to the companies I propose to make an alteration in one passage, as marked in red ink.

Yours very truly,
(Signed) T. L. HEATH.

P.S.—I have written in the same terms to Sir William Plender.

T.L.H.

(5)

Enclosure No. 1 to Document 4.

DRAFT LETTER FROM THE PRESIDENT OF THE BOARD OF TRADE TO THE ACTING CHAIRMAN OF THE RAILWAY EXECUTIVE COMMITTEE.

SIR,

With reference to Mr. Marwood's letter to yourself of the 12th October, 1914, and subsequent correspondence on the subject of the agreement as to the compensation to be paid by His Majesty's Government to the railway companies under the Regulation of the Forces Act, 1871, and to the recent discussions between representatives of the Treasury and of the Railway Executive Committee, I am directed by the Board of Trade to state that the Treasury have signified their readiness to accept the following clauses as interpreting and amplifying that Agreement, on the understanding that the clauses are accepted in their entirety by all the companies concerned.

As the matter is one which will have to be dealt with by the individual Boards of Directors, the Board of Trade will be obliged if the Railway Executive Committee will take steps to ascertain whether the controlled railway companies are prepared to accept the clauses.

1. *Capital Expenditure.*

Interest to be allowed upon all sums expended upon (1) works (including in that term rolling stock and plant and also the land used in connection with works) brought into use since 31st December, 1912, or (2) mineral support acquired since that date under the mining clause of the Railway Clauses Consolidation Act, 1845, or similar statutory provisions, which are properly chargeable to capital and have in fact been so charged. Interest to be calculated from 5th August, 1914, or from the date when the work was brought into use (or the mineral support was acquired), whichever is the later date, but, in the case of works brought into use (or mineral support acquired) during the year 1913, interest to be allowed only for the period in each year corresponding with the period intervening between 31st December, 1912, and the date when the work was brought into use (or the mineral support acquired). The rate of interest to be 4 per cent. per annum up to 31st December, 1915, and afterwards such rate (not being less than 4 per cent.) as shall be agreed between the Treasury and the Railway Executive Committee. Regulations in regard to the calculation of interest in the case of works brought gradually into use, and generally as to giving effect to this clause, to be agreed between the Government Accountants and the Railway Executive Committee.

The Government to pay forthwith per cent. of the amounts claimed under this head in respect of the period to 31st December, 1915, and the balance from time to time as soon as the amounts due are agreed.

2. *Stores.*

At the end of the period of Government control, a cash payment to be made by the Government to each of the controlled companies equal to the difference between (a) the book value of the stores in stock at the 5th August, 1914, and (b) the value of the same quantities of similar stores, calculated—

(1) as to the extent those quantities are in stock at the end of the control period, at the stock prices then ruling;

(2) as to the shortage in the quantity at the end of the control period as compared with the quantity at the beginning;

at replacement prices.

The replacement prices to be agreed between the Treasury and the company as fairly representing the prices at which the shortage could be made good, having regard to the quoted market at the end of the control period, the probable movement of prices, and the other circumstances of the case.

Where at the end of the Government control a company's stock of any materials is in excess of the quantities of those materials in stock at 5th August, 1914, by reason of purchases reasonably made for the purpose of military or naval traffic or requirements, the Government, in addition to making the above-mentioned cash payment, at their option either to purchase such excess quantities at cost price or to pay to the company fair compensation in respect thereof having regard to the price paid by them and the value of the materials to the company.

Regulations in regard to the calculation of prices, the definition of stores, and generally as to giving effect to this clause to be agreed between the Government accountants and the Railway Executive Committee.

3. *Allowances to dependants of men serving with H.M. Forces.*

As from the commencement of the period of control the Government to bear the cost of any allowance made by a company in accordance with the Circular Letters issued or to be issued by the Railway Executive Committee on the matter to the dependants of an employé serving with H.M. Forces (other than a commissioned officer) whether such allowance exceeds 10s. a week or not.

In the case of commissioned officers, the arrangement set out in Circular Letters Nos. 274, 277, 288 and 321 issued by the Railway Executive Committee to continue.

4. *Damage to railway property by bombardment or hostile aircraft.*

(1) The Government to bear the cost of making good any damage to property or plant (other than property the rent of which would normally be included in the lower half of Account No. 8 of the Statutory Form of Railway Accounts) caused by bombardment or hostile aircraft (including any damage which may be caused through measures taken against such bombardment or hostile aircraft), whether such damage has been or can be made good during the period of Government control or not.

(2) Any premiums paid in respect of any such property or plant already insured against such risks to be included in the company's ordinary working expenditure, and credit to be given to the Government for any sums received by the companies under policies of insurance.

(3) In the case of premises held by a company on lease or agreement, and which if owned by the company would fall within Clause (1), the Government to indemnify the company to the extent of their legal liability under the terms of the lease or agreement in each case.

5. *Charges for services rendered by railway companies to the Government.*

The following rules to be observed as regards charges for services rendered to, or accommodation or other things provided for, Government Departments by controlled railway companies:—

(See letter from Sir A. Kaye Butterworth to Sir Thomas Heath.)

6. *Refund of Surcharges.*

Every company to give an undertaking to repay to the Treasury or to any person nominated by them any sums which on a final settlement of accounts may be found to have been received or retained by such company in excess of the amount due to them.

(6)

Enclosure No. 2 to Document 4.

DRAFT LETTER TO RAILWAY COMPANIES.

The Executive Committee have for some time past been in negotiation with the Treasury with regard to certain points which at present are unprovided for, or not clearly provided for, in the agreement for compensation, the most important of these being the question of an allowance for new capital expenditure, the responsibility for damage by bombardment or hostile aircraft, and the method of dealing with stores at the end of the period of control. The Executive Committee are pleased to state that on each of the above matters the Government are prepared to accept the contentions of the Committee subject to an agreement being reached on certain other points, and have expressed their readiness to enter into an agreement which, in the views of the Executive Committee, fairly meets the circumstances of the case. On the other hand, the Government attach importance to there being a clearer definition than at present exists of those services rendered by the companies which are to be charged for and either made the subject of a special debit or brought into the monthly revenue statements, and those, (e.g., the conveyance of troops and military and naval stores and equipment) in respect of which no charges are to be raised.

The Government also points out that, in view of the fact that the monthly accounts of the companies are now being paid without deduction, there should be some machinery for securing the repayment of any over-payments which an examination of the accounts may disclose.

The result of the negotiations has been embodied in the accompanying letter addressed by the President of the Board of Trade to the Acting Chairman of the Executive Committee. The proposals set out in that letter have been accepted by the companies represented on the Executive Committee, and I have to ask you to let me know, for the information of the Board of Trade, if possible within the next fortnight, whether your Board is prepared to accept them.

(7)

"The General Manager,"
North Eastern Railway,
4, Cowley Street,
Westminster, S.W.
June 23rd, 1916.

Dear Sir THOMAS HEATH,

COMPENSATION UNDER THE ACT OF 1871.

Referring to our interview this morning, will you kindly let me have a note of the words which you suggested should be inserted in the first paragraph of the draft letter to the railway companies.

With regard to the other documents, the points I have noted are:—

1. *Capital Expenditure.*

I suggested that the rate of interest on capital expenditure should be 4 per cent. permanently, and that in the last paragraph relating to capital expenditure the percentage to be inserted should be

30 per cent., and the date altered to 30th June, 1916. I understood that you would consider these suggestions, but that, in any case, you thought it would be necessary that the first payment should be spread over two or three months for budgeting reasons.

2. *Stores.*

The paragraph on the top of page 3 you will refer to Sir William Plender, and I suggested that it might be well for him to discuss the paragraph with the General Manager or Accountant of the South Eastern Company, as I know that company is affected by it.

3. *Allowances to Dependents.*

You desired some reference to the four-fifths limit, and I promised to send you a short memorandum explaining the cases in which the allowances exceed the four-fifths limit, and also to send you details of the arrangements with regard to commissioned officers.

5. *Charges for Services.*

You explained to me generally what had taken place at yesterday's meeting, and stated that, from the point of view of the Treasury, it was very desirable that the regulations should be agreed and inserted in the circular to be sent to the companies.

6. *Refund of Surcharges.*

You said you thought that companies ought to refund surcharges with interest at the same rate as is paid by the Government to the railway companies in cases where there is delay in payment for work done at cost price.

I mentioned the case of rents and the recent claim of the Government to have the benefit of "below the line" premises on payment of loss, and I also mentioned the question of income tax in connection with interest on capital. As to the latter point, I assume that the payments made by the Government will be after deducting the tax current in the period in respect of which the interest has accrued.

Yours faithfully,
(Signed) A. KAYE BUTTERWORTH.

Sir Thomas Heath,
Treasury Chambers, S.W.

(8)

London, E.C.
15th July, 1916.

Sir Thomas L. Heath, K.C.B.,
Treasury Chambers, S.W.

MY DEAR SIR,

STATE CONTROL OF RAILWAYS.

We have considered the letter proposed to be written to the Railway Executive Committee and that proposed to be written by the Executive Committee to the railway companies, drafts of both of which you sent us with your letter of the 26th ulto.

Referring to the letter to the Railway Executive Committee, which embodies notes of the six clauses proposed to be adopted as interpreting and amplifying the original agreement, we have the following comments to make:—

1. *Capital Expenditure.*

We think that the proposed inclusion of land used in connection with works brought into use since 31st December, 1912, and mineral support acquired in connection with lines actually in use, is reasonable, and that the clause may properly be amplified in this respect. It should be provided in any regulation that may be framed that in ascertaining the capital expenditure on which interest is to be calculated, deduction must be made for the value of works replaced.

We think that, in order to make clear the provisions as to interest in respect of works brought into use in the year 1913 some slight rearrangement

of the wording of the proposed clause might be advisable, which might take some such shape as the following:—

1. *Works brought into use (or mineral support acquired) during 1913.*

Interest to be allowed thereon in 1914 from 5th August to the date corresponding to the date in 1913 when the works were brought into use (or mineral support acquired) and in subsequent years of control for the period in those years which corresponds with the period in 1913 during which the works were not in use (or mineral support not acquired).

2. *Works brought into use (or mineral support acquired) during 1914 or in subsequent years.*

(a) *Prior to the 5th August, 1914.*

Interest to be allowed thereon from the 5th August, 1914, throughout the period of control.

(b) *From the 5th August, 1914.*

Interest to be allowed thereon from the date when such works were brought into use (or mineral support acquired) and throughout the remainder of the period of control.

We are of opinion that the rate of 4 per cent. should be regarded as fixed for the whole period of control.

We consider that 90 per cent. is too high a proportion of the claims for interest to be paid before they have been adjusted and agreed, and suggest that the Government might undertake to pay say 85 per cent. of the interest claimed in respect of the period to 31st December, 1915, in three equal monthly instalments and the balance on the amount due being agreed on behalf of the Government. It would be better that the ascertainment of interest due should be annual rather than half-yearly, so following the practice with regard to the ascertainment of the general claim for compensation.

The question of Income Tax on the interest which Sir A. Kaye Butterworth refers to at the close of his letter of the 23rd ult., is one which must, no doubt, be decided by the Inland Revenue Authorities.

2. *Stores.*

The clause as drafted appears to carry out the arrangement which has been come to, but to avoid misunderstanding, we would suggest that the expression "Book Values" should be substituted for "Stock Prices" in the paragraph numbered 1, and we think that it would be advisable that replacement prices should be agreed by the Treasury with the Railway Executive Committee rather than with individual companies. It should be specified that any amounts already received by the companies for replacement value of material used on work done for the Government must be brought into account when fixing the amount to be allowed under this clause.

3. *Allowances to Dependants of Men serving with H.M. Forces.*

It appears that, as a general rule, these allowances do not exceed 4/5ths of a man's railway pay, but certain minimum payments are made which, in some cases among the lower paid grades, have the effect of bringing the total allowances above that limit. If the intention is to confirm the present practice, the clause as drafted might stand, provided that the authority of the Government should be stipulated for any change, in which event the clause might be amended by substituting for the words "Circular letters issued or to be issued by the Railway Executive Committee," the words "Circular letters already issued or which may, with the assent of the Government, be hereafter issued by the Railway Executive Committee."

We understand that the arrangement made by the Railway Executive Committee, with regard to payments to commissioned officers, is that the payments charged against the Government shall not exceed two-thirds of their railway pay, with the further

proviso that the total sum received by the officers shall not exceed the total salary they were receiving on the outbreak of war.

4. *Damage to Railway Property by Bombardment or Hostile Aircraft.*

The provisions of this clause call for no comment

5. *Charges for Services Rendered by Railway Companies to the Government.*

We note that, as discussion is still proceeding between the Government Departments concerned and the officers of the Railway Executive Committee, the form of this Clause cannot yet be considered.

6. *Refund of Surcharges (Adjustment of Accounts with Companies).*

The companies should no doubt give undertakings to repay to the Treasury or to any person nominated by them, any sums which, on a final settlement of the accounts of any period ending 31st December, may be found to have been received or retained by them in excess of the amounts due to them, and it would seem reasonable that they should pay interest on such sums at 5 per cent., the rate which we believe the Government was paying to the railway companies in cases where there was delay in payment for work done at cost price. Payment of interest might run from the 1st March following the close of any such period.

Subject to the foregoing suggestions, we think that the letter proposed to be written by the Board of Trade to the Acting-Chairman of the Railway Executive Committee is such as the Treasury may properly agree to, subject to the omission of the paragraph on page 3, ("Where at the end of the Government control . . . the value of the materials to the company"). Sir Alexander Butterworth thinks that if an understanding exists between the Government and the Executive on the lines referred to in our communication to you of to-day's date on the subject of stores, it is unnecessary to refer specifically to the question in the Board of Trade's letter to the Executive. There are good grounds for this view, which Sir Alexander Butterworth will explain verbally.

We approve the draft letter to the railway companies, as altered in red ink.

Yours very truly,

(Signed) { W. PLENDER.
ALBERT W. WYON.

(9)

Treasury, S.W.
19th July, 1916.

Dear Mr. WYON,

I am much obliged for your letters of 15th instant reporting on the suggested terms for settlement of outstanding questions with the railway companies.

I have had some conversation with Sir John Bradbury, and there is one point with which, on present information, we do not feel quite satisfied. It is as to the propriety of including sums spent on "mineral support" as part of the capital expenditure on which we are to pay interest.

If we understand the matter rightly, this expenditure seems to be hardly on the same footing as expenditure on land. Our impression is that the question of "mineral supports" arises in this way. A quantity of land was bought for the construction of a line many years back, let us say. The company at that time bought the surface of the land, but no minerals thereunder, and took an *option* to buy the minerals at a later date if it proved necessary by reason of the mine-owners' operations coming near and threatening the safety of the line. The cost of buying the minerals was therefore a deferred liability which might mature at any moment.

Now, by hypothesis, the point of our paying interest on unproductive capital expenditure is that, but for the Government having taken over the lines, it would have been productive during the period of control, but, as it is, the company are debarred by the

Government occupation from earning the expected revenue, since we are only making up the net receipts to the amount at which they stood before the war and before the expenditure became productive.

This, however, does not seem to be the case as regards expenditure on "mineral support." At whatever time the expenditure was incurred, whether before or during the period of control, the expenditure would have produced no new revenue whatever; it would only have been instrumental in preserving the old revenue. Consequently the fact of the Government taking over the railways has not in this case prevented the company from earning interest which they would otherwise have earned, as in the other case of capital spent on new works or land required for such works; and there would seem, therefore, to be no ground on which the Government can be called upon to pay interest on capital spent on acquiring the mineral supports.

I should be glad if you would favour me with your further observations on this point.

I am writing in similar terms to Sir W. Plender.

Yours very truly,

(Signed) T. L. HEATH.

(10)

London, E.C.,
21st July, 1916.

Sir Thomas Heath, K.C.B.,
Treasury, S.W.

Dear Sir THOMAS HEATH,

STATE CONTROL OF RAILWAYS.

The explanation of what constitutes "mineral support" is correctly set out in your letter of the 19th instant.

Where mineral support has been acquired in respect of lines open for traffic since 31st December, 1912, it is part of the cost on which the allowance for interest should be calculated, as the whole cost is a new revenue-producing asset.

Where mineral support has been acquired since 31st December, 1912, in respect of lines open before that date, we considered that as the expenditure was a necessity for the purpose of safeguarding existing revenue, it was not unreasonable that an allowance should be made. For example, if support had not been acquired and a subsidence occurred due to mineral working so that trains could not run with safety until the line was repaired, there would be in the interval a diminution of earnings which the Government would have to meet in the shape of an increased deficiency.

We were careful in our letter to limit the allowance to mineral support in respect of lines already open, as we do not consider anything should be conceded for such a purpose in respect of lines not yet brought into use.

We are,

Yours faithfully,

(Signed)

W. PLENDER.
A. W. WYON.

(11)

Accountants' Sub-Committee,
c/o Railway Executive Committee,
16, Great George Street,
Westminster, S.W.

20th September, 1916.

DEAR SIR,

INTEREST ON CAPITAL EXPENDITURE.

I have pleasure to send you herewith a copy of "Regulations in respect of Claims for Interest on Capital Expenditure," which have been drawn up by the Accountants' Committee and generally approved by the Railway Executive Committee. Perhaps you will kindly give the document your consideration

in conjunction with Sir William Plender, and advise me whether the "Regulations" as drawn up meet with your approval.

I am writing similarly to Sir William Plender.

Yours faithfully,

(Signed) W. BAILEY.

Enclosure.

A. W. WYON, Esq.,
3, Fredericks Place,
Old Jewry, E.C.

(12)

Enclosure to Document No. 11.

INTEREST ON CAPITAL EXPENDITURE.

Regulations in respect of Claims for Interest on Capital Expenditure.

1. *Definition of Capital Expenditure.*

Capital expenditure means sums charged to capital (including expenditure on leased and worked lines, or, in the case of land subject to a rent charge or feu duty, the capitalised value of such rent charge or feu duty, calculated at 25 years' purchase, in connection with:—

(1) The first seven items in Account No. 8 in respect of lines, works, rolling stock and plant (hereinafter described as "works, &c.") brought into use during or subsequent to the year 1913 irrespective of the period during which the expenditure was incurred:

(2) Purchase money or compensation paid for mineral support acquired under the mining clauses of the Railways Clauses Consolidation Act, 1845, or similar statutory provisions, during or subsequent to the year 1913, in respect of lines, &c., actually in use.

The cost of any works replaced to be deducted from the capital expenditure on any new works upon the cost of which interest is charged.

2. *Works, &c., brought into use in sections.*

In the case of works, &c., sections of which are brought into use from time to time, interest to be allowed upon the cost of the section brought into use in so far as that can be separated from the cost of the remainder of the work, together with a proportion of such items of cost as cannot be so separated corresponding to the proportion of the entire work which is brought into use.

3. *Land.*

Except in the case of land the rent of which would before the construction of the works, &c., in question, have normally been included in the lower half of Account No. 8, the purchase price of the land upon which any of such works, &c., are constructed shall not be taken into account unless it can be shewn that it was specifically acquired for such purpose.

4.—*Certificates.*

The actual dates upon which the works, &c., or sections of works, etc., are completely brought into use must be ascertained, and the following certificates given by the company's chief departmental officer concerned:—

(a) *Dates for Works, &c.*

That the works, &c., or section of works, &c., specified were brought into use on the dates shown.

(b) *Allocation of costs as between different sections of work.*

That so far as the expenditure can be divided between the respective sections of work, &c., the expenditure shown is solely in respect of the section or sections brought into use, and that in those items the cost of which cannot be divided between the respective sections (such as excavations, under-structures, station roofs, &c.), the

expenditure shown is the proportion of the whole corresponding to the proportion of the entire work which is brought into use.

(c) *Land.*

That the land upon which the works, &c., were constructed was specifically acquired for such purpose, or that the rent of such land would before the construction of the works, &c., in question have normally been included in the lower half of Account No. 8.

5. *Calculation of Interest.*

(a) *Rate to be 4 per cent. per annum.*

(b) *Works, &c., brought into use during 1913.*

Interest to be calculated during the control period, for such portions of that period as correspond with the period in 1913 prior to the date on which the work was brought into use, e.g. :—

Works, &c., brought into use, April 1st, 1913.—

Interest will be allowed during the control for the months of January, February and March in the year 1915, and for these months in subsequent years.

*Works, &c., brought into use, October 1st, 1913.—*Interest will be allowed during the control for the months of January to September inclusive, i.e., from 5th August to 30th September in the period to 31st December, 1914, and for the first nine months of 1915, and for these months in subsequent years.

(c) *Works, &c., brought into use during the period January 1st to August 5th, 1914.*

Interest to be calculated throughout the control period.

(d) *Works, etc., brought into use subsequent to August 5th, 1914.*

Interest to be calculated as from the date on which the work is brought into use and throughout the remainder of the control period.

6. These regulations are supplementary to and not in substitution for the arrangement set out in Executive Committee Circular Letter No.

(13)

London, E.C.,
29th September, 1916.

W. Bailey, Esq.,
Accountants' Sub-Committee,
c/o Railway Executive Committee,
16, Great George Street. S. W.

DEAR SIR,

STATE CONTROL OF RAILWAYS.

Interest on Capital Expenditure.

We have carefully considered the regulations in respect of claims for interest on capital expenditure of which you sent us a draft on the 20th instant. We approve the regulations as drawn, subject to the addition of a few words in paragraph 5, sub-paragraph (a), which we think should read, "Rate to be 4 per cent. per annum for the whole period of control."

Yours faithfully,

(Signed) W. PLENDER.
A. W. WYON.

APPENDIX XVIII.

Statement submitted by SIR ALBERT WYON.
(Vide Questions 3204 and 3212 in Minutes of Evidence.)

**ACCOUNT OF THE NET RECEIPTS.
CLAIM FOR ARREARS OF MAINTENANCE AND RENEWAL WORK.**

STATEMENT SHOWING:—

In Column (a)—The effect on the two claims of the inclusion of a charge for "Damage by Blizzard" £1,224

In Column (b)—The effect on the two claims of the exclusion of such a charge.

In Column (c)—The effect on the two claims of:—

The inclusion of the charge in the Account of the Net Receipts, and

The treatment of the item in the claim for Arrears of Maintenance and Renewal Work, as Abnormal Wear and Tear made good.

ACCOUNT OF THE NET RECEIPTS—YEAR 1916.

	Column (a).	Column (b).	Column (c).
ABSTRACT "A"—MAINTENANCE AND RENEWAL OF WAY AND WORKS.			
Superintendence:			
Salaries	1,507	1,507	1,507
Office Expenses, &c.	155	155	155
Maintenance of Roads, Bridges and Works:			
Earthworks	7	7	7
Bridges, Tunnels, Retaining Walls, &c.	1,693	1,693	1,693
Roads and Fences	1,557	1,557	1,557
Maintenance of Permanent Way:			
Renewal of Running Lines:—			
Wages	1,049	1,049	1,049
Materials	1,558	1,558	1,558
Engine Power, &c.	238	238	238
Repair of Running Lines and Sidings:—			
Wages	8,383	8,383	8,383
Materials	1,685	1,685	1,685
Engine Power, &c.	353	353	353
Maintenance of Signalling	2,376	2,376	2,376
Maintenance of Telegraphs	919	919	919
Maintenance of Electric Track Equipment:			
Maintenance of Stations and Buildings:—			
Stations, Depots and Offices	2,101	2,101	2,101
Engine Sheds	997	997	997
Carriage Sheds			
Locomotive Workshops	943	943	943
Carriage Workshops	1	1	1
Wagon Workshops	1	1	1
Other Buildings	197	197	197
Damage to Telegraph Poles and Wires by Storm	1,224	Nil.	1,224
TOTAL CHARGE AGAINST GOVERNMENT ACCOUNT ...	£26,944	£25,720	£26,944
CLAIM FOR ARREARS OF MAINTENANCE AND RENEWAL WORK—ABSTRACT "A."			
TOTAL EXPENDITURE UNDER ALL HEADINGS IN ABSTRACT "A" (Exclusive of transfers to or from Depreciation Fund or Suspense Account) Year, 1916.	26,944	25,720	26,944
Less: For New Lines opened, arrived at in the prescribed manner:	1,053	1,053	1,053
Additional Expenditure for Abnormal Wear and Tear:—			
Damage by Blizzard	—	—	1,224
	25,891	24,667	24,667
Less: 12·899 per cent. (arrived at in the prescribed manner) to reduce to 1913 cost.	3,339	3,181	3,181
EXPENDITURE IN 1916, ADJUSTED FOR COMPARISON WITH YEAR 1913 ...	22,552	21,486	21,486
TOTAL OF ABSTRACT "A," YEAR 1913, as per printed accounts ...	27,497	27,497	27,497
ARREARS OF WORK, YEAR 1916	4,945	6,011	6,011
Deduct: Excess of Work, 5th August to 31st December, 1914	868	868	868
Add: Arrears of Work, Year 1915	161	161	161
	4,238	5,304	5,304
ARREARS OF WORK TO 31ST DECEMBER, 1916, subject to an addition of 15 per cent.			
Add: 15 per cent.	635	795	795
	4,873	6,099	6,099
Deduct: Amount claimed in respect of Arrears of Maintenance, 5th August, 1914, to 31st December, 1915.	—	—	—
NET AMOUNT TO BE CLAIMED	£4,873	£6,099	£6,099
REDUCTION IN THIS CLAIM BY INCLUSION OF THE CHARGE, viz.:			
Difference between "Net Amount to be claimed" per columns (a) and (b).	1,226	made up thus:—	
(a) Charge for Damage by Blizzard	1,224		
(b) Allowance of Increased Cost arising thereon, viz.: 12·899 per cent. of £1,224.	158		
(c) Loss of 15 per cent. allowance on 1913 cost thereof, viz.: £1,065.	160		
	£1,226		
TOTAL CHARGE TO GOVERNMENT	£31,817	£31,819	£33,043

APPENDIX XIX.

Submitted by SIR ALBERT WYON.
(Vide Questions 3663 and 3784 in Minutes of Evidence.)

ANALYSIS OF ABSTRACTS "A," "B" (1), (2) AND (3)
For the Years 1913 and 1919, showing Amounts charged for Renewals of Permanent Way and Rolling Stock.
(Known as the Blue Form.)

RAILWAY COMPANY.

ANALYSIS OF THE UNDERMENTIONED ABSTRACTS FOR THE YEARS 1913 AND 1919, SHEWING AMOUNTS CHARGED FOR
RENEWALS OF PERMANENT WAY AND ROLLING STOCK.

Abstract.	Published Accounts. Year 1913.			Government Account. Year 1919.		
	Amount Charged for.	Balance.	Total (b).	Amount- Charged for.	Balance.	Total (c).
"A" MAINTENANCE AND RENEWAL OF WAY AND WORKS—	Renewal of Permanent Way (a). £	£	£	Renewal of Permanent Way. £	£	£
Superintendence						
Maintenance of Roads, Bridges and Works... ..						
Renewal of Running Lines						
Repair of Running Lines and Sidings						
Maintenance of Signalling						
Maintenance of Telegraphs						
Maintenance of Electric Track Equipment... ..						
Maintenance of Stations and Buildings						
Transfer to (or from) Depreciation Fund or Suspense Account						
TOTAL	£					
"B (1)" LOCOMOTIVES—	Renewal of Locomotives (a). £			Renewal of Locomotives. £		
Superintendence						
Complete Renewals						
Repairs and Partial Renewals						
Purchase of New Locomotives						
Workshop Expenses						
Transfer to (or from) Depreciation Fund or Suspense Account						
TOTAL	£					
"B (2)" CARRIAGES—	Renewal of Carriages (a). £			Renewal of Carriages. £		
Superintendence						
Complete Renewals						
Repairs and Partial Renewals						
Purchase of New Carriages						
Workshop Expenses						
Transfer to (or from) Depreciation Fund or Suspense Account						
TOTAL	£					
"B (3)" WAGONS—	Renewal of Wagons (a). £			Renewal of Wagons. £		
Superintendence						
Complete Renewals						
Repairs and Partial Renewals						
Purchase of New Wagons						
Workshop Expenses						
Transfer to (or from) Depreciation Fund or Suspense Account						
TOTAL	£					
GRAND TOTAL	(e).			(d).		

EXPLANATORY NOTES.

- (a) This must represent the Renewals Charge for the year 1913, and in the case of "provision" Companies, should agree with the "Amount provided" in the Statement of Reserves. A Schedule of the various Funds making up this figure to be attached, where necessary.
- (b) This column must agree with the Published Accounts (apart from the Engine Power item in the case of Abstract B (1)).
- (c) This column must agree with the Government Account.
- (d) Under Clause (4) of the Memorandum of Instructions as interpreted by Executive Committee Circular Letter No. 686, this amount must not exceed (e) except under the circumstances set out in that Circular Letter.

Amount charged for Control period (d) = £ _____
 " " " year 1913 (e) = £ _____
 Excess (if any) made up as under = £ _____

PARTICULARS OF EXCESS.

APPENDIX XX.

Submitted by SIR ALBERT WYON.

(Vide Question 3671 in Minutes of Evidence.)

Statement of aggregate amount charged to Revenue by the Controlled Companies in respect of Renewals (Abstracts "A" and "B") in the year 1913, showing the portion thereof represented by actual expenditure.

(Compiled from the Blue Form.)

	Amounts shown as				Total Amount charged.	
	Expended.		Transferred to funds.			
	£	£	£	£	£	£
Abstract "A"	—	1,954,294	—	134,168	—	2,088,462
Abstract "B."						
Locomotives	1,177,953		171,322		1,349,275	
Carriages	1,075,120		260,068		1,335,188	
Wagons	1,647,301		146,207		1,793,508	
		3,900,374		577,597		4,477,971
		5,854,668		711,765		6,566,433

Note.—In the case of two companies it appears that their programmes cover both Repairs and Renewals. In such cases the figures set out in the "Blue Form" and summarised above relate to both Repairs and Renewals

APPENDIX XXI.

Submitted by SIR ALBERT WYON.

(Vide Question 3679 in Minutes of Evidence.)

MEMORANDUM SETTING FORTH CERTAIN CONSIDERATIONS IN CONNECTION WITH THE AGREED INTERPRETATION OF CLAUSE 4 OF THE MEMORANDUM OF INSTRUCTIONS.

The chief considerations which it is thought were present in the minds of the railway companies when suggesting this interpretation may be stated as follows:—

That in the case of programme companies all sums allowed on account of deferred renewal work would fall to credit of the company's renewal funds until the work had been carried out. In the case of non-programme companies, assuming such companies had been compelled to rely upon the claim for arrears

of maintenance for an allowance in respect of deferred renewal work, cases would arise where, owing to abnormal repair work having been carried out, the arrears of maintenance statement would have resulted in an excess figure, and in such cases the companies concerned would obtain no allowance for deferred renewal work, whereas under similar conditions the programme companies would suffer no such hardship.

APPENDIX XXII.

Submitted by SIR ALBERT WYON.

3, Frederick's Place,
Old Jewry,
London, E.C.2.
13th January, 1921.

E. Twentyman, Esq.,
Secretary,

Departmental Committee on
Railway Agreements.

Dear Mr. TWENTYMAN,

DEPARTMENTAL COMMITTEE ON RAILWAY AGREEMENTS.

I have read through the printed proof of evidence given by me on the 22nd December last, which you forwarded to me on the 30th ult., and I enclose a note of certain textual alterations which I have also marked in red ink on the proof which I return.

There are certain other matters which arise out of the questions put to me and my reported replies, upon which I think it necessary that the Committee should have before them the following further observations:—

Questions 3466 and 3467.

I have taxed my memory in connection with the suggestion that an investigators' report was taken back and altered, and have consulted my assistants, but I find that no such case is known to us.

I should therefore be glad if a note to this effect could be attached to my reply to Question 3467.

Questions 3590, 3591, and 3594.

I have referred to my papers in connection with the case referred to in these questions, and find that the facts are as follows:—

This matter was first raised in the railway investigators' report upon the account of the company which had charged the "toll" above the line (i.e., against the Government). The point was therefore disclosed as soon as this report reached me, and not in the manner indicated in my reply to Question 3594. My decision was arrived at prior to the inception of the Ministry of Transport.

On consideration I think it hardly correct to say that the point might not have emerged unless the claims of the two companies were compared. As a fact the transaction in question was not in the ordinary course, and therefore the investigator was bound to report it, which, as a matter of fact, he did. I think it desirable that a note to this effect be attached to my replies to these questions.

Questions 3720, 3743, 3744.

Some misunderstanding seems to have arisen in connection with the amounts allowed to the companies as additional provisions in respect of the increased first cost of rolling stock in service.

While I am in general agreement with the proposition that a company having been allowed in the account of net receipts a certain sum in this respect and having a claim for arrears of maintenance is at present permitted by means of that claim to increase the sum allowed by 15 per cent., I do not consider that in the case of a company which has no claim for Arrears of Maintenance, anything is paid to them beyond the sum to which they are entitled. I find that when Question 3743 (which implies that an amount is so paid) was put to me, I am reported to have said, "That may be so," but when the question is repeated in another way (No. 3744), I am stated to have replied in the affirmative.

In order that my views in this matter may be clearly before the Committee, I add the following remarks:—

As to companies who have a claim for Arrears of Maintenance:—

Although there is undoubtedly a possibility of an over-payment under the present arrangements, over-payment will, on final settlement, be found to have

arisen only if the 15 per cent. addition to the amounts allowed on account of Increased First Cost increases that sum to a figure exceeding such an allowance calculated at the prices ruling at the end of Control, i.e., assuming that as at present proposed it is conceded that the companies are entitled to make their provisions for renewals falling due after the termination of Control at the rates ruling at the close of Control. It is clear that allowances conceded in, say, 1916 and 1917 and based on the additional cost of renewal in those years, even when increased by 15 per cent., will not be sufficient to meet the ultimate cost of carrying out the work, which it has been suggested will amount to a 200 per cent. addition to the 1913 base.

As to companies who have no claim for Arrears of Maintenance no over-payment can arise.

This statement I may be permitted to illustrate by the following example:—

Assume:

1913 quantum of Renewals	£100
Expenditure in 1921 upon Renewals ...	£318
Increased Cost assessed at:—	
66½ per cent. of 1921 expenditure, or	
200 per cent. of 1913 expenditure.	

Example (a).

Charge for Renewals in 1921, assuming the company are entitled to an allowance of £6 for the "Increased First Cost" of Rolling Stock in service in 1921.

	£
1. 1913 quantum	100
2. Allowance for "Increased First Cost" of Rolling Stock in Service	6
3. Increased Cost of all necessary Renewal work carried out, viz.: 66½ per cent. of £318	212
Total permissible charge	318

Shown in Account of the Net Receipts thus:—

Expenditure	318
Total of Abstract (Renewals only)	£318

Example (b).

Charge for Renewals in 1921 if the company are not entitled to such an allowance.

	£
1. 1913 quantum	100
2.	Nil
3. Increased Cost of all necessary Renewal work carried out, viz.: 66½ per cent. of £318	212
Total permissible charge	312

Shown in Account of the Net Receipts thus:—

Expenditure	318
Less—Transfer to Fund (Credit)	6
Total of Abstract (Renewals only)	£312

I have taken two examples, in one of which (a) the company has been conceded an allowance of £6 on account of Increased First Cost, and in the other (b) the company has not been allowed this concession.

The amount charged against the Government in the case of the

first example is	£318
and in the second example is	£312
or an increase of	£6 only.

It will be seen by a comparison of the two examples that the sum of £212 is chargeable against the Government in both cases as it represents increased cost arising upon necessary renewal work actually carried out.

The amount of the quantum (whether or not increased on the ground of increased first cost) has no effect on the calculation of the allowance for increased cost of renewal work executed.

The decision of the Ministry of Transport to allow to the companies excess cost due to increased prices upon necessary renewals was communicated by the Ministry to me in October, 1919, and has been communicated to the companies.

As indicated in my reply to Question 3698, I am of opinion that the Company is entitled to charge the Government with the whole of this increased cost, as it represents the shortage arising upon the provisions of the past, and the amount chargeable in this way must be distinguished from the £100 and the £6 in example (a) which I look upon as provisions for the renewals of the future.

The figures employed in the preceding examples are based on the unlikely assumption that the company concerned in example (a) actually spent the exact sum it was entitled to charge. This being assumed, a result is obtained in which the amount chargeable is exactly three times the 1913 quantum plus three times the allowance for increased first cost. I also give a further illustration (Example "C"), which further illustrates the view I have taken.

Example (c).

(Excess of Repairs Throughout.)

Assume a company provides £100 per annum in respect of 33 wagons costing £100 each, equal to a 33 years' life, or 3-1/33rd per cent. on cost.

At the end of 33 years they have to renew them all, and, presuming this is done in 1921, they find that each wagon costs £300 to renew (an increase of 66½ per cent.). Their expenditure in 1921 is therefore £9,900. Their permissible charge for renewals is:

	£	£
Increased cost of work done 66½ per cent. of £9,900		6,600
1913 quantum		100
Increased First Cost Allowance, viz.:		
1st Cost 1913	3,300	
1st Cost 1921	9,900	
	<u>6,600</u>	
Increased First Cost	6,600	
		<u>200</u>
At 33 years' life (3-1/33rd per cent.)		200
Total permissible charge		<u>6,900</u>
	£	£
<i>Abstract B3 in 1921 (Renewals only)</i>		
Expended		9,900
<i>Less: Transfer to debit of Fund Expenditure of 1921 equated to 1913 basis</i>	3,300	
<i>Less: Provision for the year 1921</i>	300	
	<u>3,000</u>	
		<u>£6,900</u>

Renewal Fund Account.

Dr.					
1921		£	£	1921	Cr.
Dec. 31. To <i>Abstract B3</i> , viz.:				Jan. 1	By balance 33 years' provisions at £100 per annum
Expenditure	Dr. 9,900			Dec. 31	By <i>Abstract B3</i> Provision on new basis for 1921
<i>Less: 66½ to equate to 1913 costs</i>	Cr. 6,600				800
			3,300		
Dec. 31. To <i>Balance</i> carried forward, being provision on new basis of Increased First Cost, for the year 1921...			300		
		<u>£3,600</u>			<u>£3,600</u>

After consideration of the subject, which has necessarily been fuller than I was able to give to it in the course of my examination before the Committee, I wish to convey to the Committee my view with regard to companies who have claimed and obtained allowance on account of increased first cost. Among these companies which have claims for arrears of maintenance, it may eventually be found that there are some whose claims will require adjustment on the final settlement of their claims for increased cost, but no such necessity for adjustment will arise in the case of companies having no claim for arrears of maintenance.

Questions 3762 and 3772.

In connection with the suggestion that these questions appear to contain, viz.: that a company should provide out of the increased rates the whole of the increased cost of renewal of its wagons, and that therefore the present allowance for increased first cost in effect constitutes a double payment to the company, I would point out that the allowance referred to is granted to meet the instalment of the liability for renewal which falls within the control period, and that during this period the increased rates do not accrue to the benefit of the companies. It will not be until after the control that the companies will receive the benefit of the increased rates, and then the renewal instalments will wholly fall upon them.

Having regard to these considerations I should like to withdraw my reply to Question 3762.

Question 3765.

I find that my reply to this question is not strictly correct, as in the circumstances referred to the renewed wagon would, of course, still stand on the company's capital account at its original cost, viz., £100, but would be included in the inventory of rolling stock at its renewed cost, viz., £200.

Perhaps a note to this effect attached to my reply may be useful.

Questions 3790, 3797, 3808, and 3935.

I think it desirable to give some further explanation of the method adopted when applying the Blue Form to the renewal charges which are made in the accounts of the net receipts. When considered in conjunction with the present arrears of maintenance arrangement, I have found that the Government account would in certain circumstances be overcharged if the companies were permitted to set off an excess charge for renewals in one abstract against a deficiency of renewals in the other. I have therefore insisted that no such process may be employed when preparing the accounts of the net receipts.

Yours very truly,

(Signed) ALBERT WYON.

APPENDIX XXIII.

STATEMENT OF EVIDENCE SUBMITTED BY SIR WILLIAM PLENDER.

I have conferred with Sir Albert Wyon and have read his proof of evidence dated the 4th instant, with which I am in agreement.

I was invited (in a letter from Sir William Marwood dated the 21st June, 1915) to act in a similar capacity as Mr. Gurney Fowler in regard to the claims of those railways whose accounts were audited by Mr. Gurney Fowler's firm, or any member thereof, or in respect of which his firm acted as professional accountants.

The companies falling under these categories are as follows:—

British Railways.

Great Eastern Railway.
Great Northern Railway.
Isle of Wight Railway.
London, Brighton & South Coast Railway.
London, Chatham & Dover Railway.
London & North Western Railway.
Metropolitan Railway.
Metropolitan District Railway.
North Eastern Railway.
North London Railway.
South Eastern Railway.
South Eastern & Chatham Railway Companies Managing Committee.

Irish Railways.

Dublin & South Eastern Railway.
Dundalk, Newry & Greenore Railway.
Great Southern & Western Railway.
Midland Great Western Railway.

The letter previously referred to from Sir William Marwood reads:—

"The Board of Trade, in consultation with the Treasury, considered the question as to the scope of the examination to which the accounts of the companies should be subjected on behalf of the Government; and, seeing that the accounts of all companies are at present subject to an audit, which is entirely independent of the management of the companies, they were of opinion that payments can properly be made upon certificates by these independent auditors, subject to a general scrutiny of the character hereafter referred to.

"It was proposed that, in the first place, the companies themselves should prepare drafts of certain Instructions and Schedules, that these drafts should be submitted to the Board of Trade, and that, when finally settled, they should be issued through the companies to their accountants, who would prepare the accounts on the lines thus laid down. This procedure was, as you know, followed, and the Instructions have, it is understood, been issued to all the companies whose undertakings were taken over under the Act.

"It is further proposed that the accounts will in due course be audited by the professional auditors of the companies, and will ultimately be submitted to the Board of Trade with a view to the final payment of compensation when the control

period has come to an end. Before being finally passed for payment, the certified claims, will be referred to a consulting accountant, whose duty it will be to satisfy himself that the principles laid down in the instructions have been followed, and he will also consider more particularly the methods adopted in regard to such matters as depreciation and the allotment of charges between Revenue and Capital Accounts. The consulting accountant would rely, in the main, on the certificates of the professional auditors of the companies, and conduct detailed investigations only if and when questions arise in the course of examination which appear to make such investigations necessary, and he would also be generally responsible for seeing that the claims are in order."

It is my practice to consider the Claims, together with the supporting statements and Reports from the Investigating Accountants, and the Accountants Sub-Committee; and with the Reports when made of the Compensation Accounts Sub-Committee, and I satisfy myself that the Claims submitted are in accordance with the terms of the original Agreement between His Majesty's Government and the Railway Companies and the various Regulations issued as supplemental thereto; or if not, I have required amendment of the claims after consultation when deemed desirable or necessary with the Board of Trade and later with the Ministry of Transport.

From time to time, Sir Albert Wyon and I have jointly considered various questions of principle or interpretation and have benefited by the mutual exchange of views.

In my judgment, the arrangements made for the examination of the compensation claims submitted by the companies have been business-like in safeguarding the interests of the State, including as they do the imposition of the following checks:—

- (1) The certification of the claims both by the accountant to the company, and by the company's auditors or professional accountants.
- (2) An examination and report by the independent investigators.
- (3) A general scrutiny and minuted approval or qualification by the Accountants Sub-Committee of the Railway Executive.
- (4) The report of the Compensation Accounts Sub-Committee.
- (5) The careful scrutiny and examination by my colleague and myself, who have been continuously in touch with the Board of Trade or Ministry of Transport; and
- (6) The general supervisory inquiry by the Comptroller and Auditor General.

The other classes of claims, *i.e.*, Arrears of Maintenance and Renewal Work and Interest on Capital are signed by the Chief Accountant of the claimant company, and pass through the tests numbered (2) to (6) as above.

7th December, 1920.

APPENDIX XXIV.

Submitted by SIR WILLIAM PLENDER.

(Vide Questions Nos. 4032, 4075 and 4085 in Minutes of Evidence.)

5, London Wall Buildings,
London, E.C.2.
8th January, 1921.

E. Twentyman, Esq.,
Secretary,
Departmental Committee
on Railway Agreements.

Dear Mr. TWENTYMAN,
I am in receipt of your letter of the 23rd ultimo.
The first question asked is:—

- "(1) Do you consider that if—
- (a) the companies have enjoyed their full net receipts of 1913 during the control period,
 - (b) the Government has paid the full liability, whatever it may prove to be, for arrears of maintenance,
 - (c) the companies' undertakings are handed back to them at the end of control in the same state as they were taken over—

that the companies are entitled under the spirit of the Agreement to enjoy the benefits of increased revenue 'below the line'—in addition to the guaranteed net receipts—arising from the payments made to them on account of arrears of maintenance, which, as indicated, would appear to account for increased receipts under this head amounting to an aggregate of about £2,500,000 during the three years 1917-1919 in the case of fourteen companies only?"

The difficulty in giving an answer to this question, without any qualifying observations, is that the latter part of the question assumes that the increased receipts below-the-line shown by Sir George Beharrell's statement* enclosed in your letter are due only to interest earned on payments made to the companies on account of arrears of maintenance. A consideration of the facts shows that the variations in the item of interest were due to a variety of causes; and further that the increase in the net credit, representing the difference between the receipts and the payments in connection with the items below-the-line, is not necessarily a measure of the benefit obtained by the companies *vis-à-vis* the Government.

For example, the increase in the net credit items of interest would be largely contributed to by:

- (a) The income from the investment of the increase since 1st January, 1914, of funds (General Reserve, Superannuation, Provident, and Savings Bank Balances, Depreciation and Renewal Funds—other than Arrears of Maintenance) with which the Government control is not concerned; and
- (b) The higher rates of interest obtainable during the war, as compared with 1913, on Bank deposits, Treasury Bills, Exchequer Bonds, and other Government securities.

The amount received from the Government for arrears of maintenance has presumably been used to a considerable extent in financing the excess value of the stocks of stores over and above the pre-war value—this excess value being due to the great rise in the prices of stores.

* Appendix V.

In view of the above considerations, I do not feel able to state that the companies should not enjoy the benefits of increased revenue below-the-line in addition to the guaranteed net receipts.

The second question asked is:—

"(2) If it be the case that the charges for maintenance in the year 1913 included certain sums by way of provision placed to augmenting provision accounts, would not the spirit underlying the 1914 agreement be satisfied by charging the Government with—

- (1) the cost of physical repairs on the basis of 1913 physical repairs adjusted to current prices;
- (2) the actual amount of the 1913 provisions placed to augmenting provision accounts in that year without any adjustment in respect of increase in prices."

In regard to the above question I assume that:—

- (a) In referring to "repairs" under paragraph numbered (1), it is intended that this expression shall cover renewals carried out, as the "augmenting provisions" referred to in the paragraph numbered (2), refer to unspent renewals;
- (b) That I am to disregard any allowances for repairs or renewals in respect of increased units brought into service.

The spirit underlying the 1914 agreement would not be met under the proposal contained in the question in the case of a company whose allowance for renewals was based on its 1913 provision if the expression used in the question of "charging the Government" limits the Government's full liability in this respect only to the amount of the unspent 1913 provision. The company would be placed in an unfair position if the renewals actually undertaken during the control period fell short of its full provision in 1913, seeing that it would presumably have to complete, sooner or later, its renewal programme after the control period had ended, and would not have accumulated a fund during the control period to meet the enhanced costs.

The regulations interpreting the agreement in this respect were designed with a view to removing such an anomaly, and to place a company in approximately the same position at the termination of control, whether it had or had not actually expended its renewal allowance during the control period.

If, at the end of control, the Government accept the liability of meeting the renewal programme unfulfilled during control, there is some reason for considering the limitation of the payments during control in respect of unspent provisions to the amount thereof, without adding the percentage, namely, 15 per cent., for higher costs.

I am,
Yours faithfully,
W. PLENDER.

APPENDIX XXV.

PRECIS OF EVIDENCE TO BE GIVEN BY SIR ALEXANDER BUTTERWORTH BEFORE THE DEPARTMENTAL COMMITTEE ON RAILWAY AGREEMENTS.

Preliminary.

Witness will say that he is the general manager of the North Eastern Railway, and has held that position since 1906.

That he also was a member of the Railway Executive Committee from its inception.

Witness at the outset will refer to the letter of the 10th November, 1920, from Sir Herbert Walker to the secretary of Lord Colwyn's Committee, in which he stated that he had had an opportunity of consulting those general managers who were his colleagues on the Railway Executive Committee, and that after carefully considering the request that he should give evidence before the Committee, as acting chairman of the Railway Executive Committee, they were unanimously of opinion that it would be improper for any one of them to take this action, in view of what they understood to be the scope of the enquiry to be held by the Committee and of the fact that the agreements in question affected the rights of individual companies and might be the subject of litigation.

He will say that in view of the fact that in the Press it had been freely stated (without any reference to the terms of this letter) that the general managers had refused to assist the Committee, he would like to explain that the only thing that made the general managers reluctant to appear before the Committee was the fear that, having regard to their terms of reference, a witness might be placed in a position which would lay him open to the charge of having prejudiced the position of companies on whose behalf he had no right to speak.

He will explain that the general managers were under the impression that the Committee would be able to obtain all the information they required from Government officials, but that from the first they had been desirous of giving the Committee all the information in their power and assisting them in their duties so far as they could properly do so.

Witness will state that he is not representing the views of the former Railway Executive Committee, still less the views of the railway companies in general, only twelve of which were represented on that Committee, and will explain the circumstances which led to his being asked to give the information desired by the Committee.

Witness on his own behalf wishes to make it clear to the members of the Committee that he is desirous of rendering them all the assistance in his power. He realizes that it may not always be easy, if one is to speak with the freedom and frankness that is desirable, to avoid at times giving utterance to expressions of opinion, or at any rate disclosing or implying views, as to the position between the parties or the ideas and intentions underlying transactions.

But if this should prove to be the case, he desires it to be very clearly understood that, so far as any expression or implication of views is concerned, he represents no one but himself (not even his own company and still less his former colleagues on the Railway Executive Committee) and he comes before the Committee on the distinct understanding that none of the companies will be prejudiced in any way by anything that he may say in the course of his evidence.

Formation of Railway Executive Committee and Negotiations leading up to the original Compensation Agreement.

Witness will detail the negotiations for settling the terms of compensation during the few days immediately preceding the outbreak of war.

He will quote the terms originally suggested by the Government and read at a meeting of the Railway Executive Committee on 31st July, 1914, and the memorandum submitted to the Board of Trade by the Railway Executive Committee in reply.

In this connection he will refer to the statement made by Sir William (then Mr.) Marwood that the Law Officers considered it would be necessary for an agreement to be made with the railways as to the disposal of the receipts.

Witness will quote the proposal made to the Board of Trade by the Railway Executive Committee on the 3rd August, 1914, and will refer to a memorandum prepared by the Railway Executive Committee on the following day giving their reasons for making this proposal.

Witness will refer to the acceptance by the Government on the 6th August of the Railway Executive Committee proposal, subject to the addition of a "proviso," and to the steps taken by the Railway Executive Committee to obtain the assent of all the controlled railway companies to the arrangement; quoting from the official letter issued to the companies the reasons which led the Railway Executive Committee to recommend acceptance.

Witness will refer to the public announcement on the 5th August with regard to the control of the railways, and also to the letter from the War Office to each railway company telling them to carry on as usual subject to the instructions of the Executive Committee.

Witness will then proceed to deal with the steps taken by the Railway Executive Committee to prevent companies taking advantage of the Government guarantee to spend money extravagantly or to improve their plant at the expense of the Government, and will refer to a letter dated 9th August, 1914, to the Board of Trade on this matter, saying that the Railway Executive Committee had the matter in hand.

Witness will proceed to detail the steps taken by the Railway Executive Committee to secure, as far as possible, the economical working of the railways during the Government control.

In this connection witness will refer to the setting up of the Accountants' Committee (dealt with more fully later in the proof) and also to a circular letter which was issued to the companies on the 13th August, which sets out fully the policy adopted by the Railway Executive Committee, and to a letter dated 13th September, 1914, notifying to the Board of Trade the acceptance of the agreement by all companies.

Definition of the Term "Net Receipts" and Periodical Payments on Account.

Witness will refer to the necessity which arose early in the Control period for some definition of "net receipts," and also for periodical payments to be made on account, neither of which points were provided for under the original agreement.

He will explain the connection between these two points, and will detail the negotiations with the Government with regard to them up to the 12th October, 1914.

Extension of Compensation Agreement to 1915.

Witness will state the steps taken in connection with the extension of the compensation agreement to the year 1915.

He will also refer to the negotiations leading up to the arrangement under which part of the first war bonus was borne by the railway companies as a set-off against the "proviso," which the Government agreed to drop as from the 1st January, 1915.

Witness will explain the views of the railway companies with regard to this matter, and will give figures showing the financial effect of the "proviso" and of the arrangement above referred to.

Supplemental Clauses (Pink Book).

Witness will refer to the circumstances which led to the consideration of these Clauses, and in this

connection to the questions whether surplus receipts belonged to the Government or to the railway companies, and how far it was open to the companies to raise charges against the Government.

Witness will refer to the meeting at the Board of Trade on 23rd July, 1915, and to Sir William Marwood's letter of the 1st September, 1915, on the question of charging Government traffic.

Witness will explain the various points of interpretation or amplification of the original agreement which the railway companies considered should be settled, and will refer to a meeting on the 2nd November, 1915, with Sir Thomas Heath and Sir John Bradbury, at which a request was made for these points to be tabulated; to a memorandum prepared by him and handed to the Treasury in December, 1915, and to a second meeting with Sir Thomas Heath and Sir John Bradbury on the 4th January, 1916, at which agreement in principle was arrived at, subject to certain information being supplied as to the financial result of the various proposals.

Witness will refer to the approximate estimates which were supplied to the Treasury, and to subsequent discussions, first, with the Government accountants on the 31st January, 1916; and, secondly, with the Treasury officials on the 29th March, 1916, which ultimately resulted in the Pink Book being issued as an agreed document.

Witness will enumerate the six points dealt with in the Pink Book, and the other points originally put forward by the Railway Executive Committee, and will explain the reasons underlying each point, and the result of the negotiations under the following heads:—

- (1) Capital Expenditure.
- (2) Stores.
- (3) The "Proviso."
- (4) War Bonus.
- (5) Renewal of Permanent Way and Rolling Stock.
- (6) Allowances to Dependents.
- (7) Arrears of Maintenance and Steamboats not taken over by the Admiralty.
- (8) Leap Year, 1916.
- (9) Damage by Bombardment or Aircraft.
- (10) Adjustment of Accounts.

Arrears of Maintenance.

Witness will refer to the document prepared by the railway companies and discussed at the Board of Trade on the 14th October, 1914, in which this question was first officially raised.

He will refer to the opinion expressed at that meeting by Sir William Plender.

Witness will quote from a letter written to the Board of Trade on the 27th October, 1914, pointing out that in view of the various kinds of work being undertaken for the Government, necessitating the postponement of renewal and repair work, it would be necessary to include in the railway companies' claim against the Government a sum to cover the cost of deferred work.

Witness will refer to subsequent discussions leading to the clause in the Blue Book in which the Government admit their liability on this point.

Witness will quote the Railway Executive Committee's letter to the Board of Trade of 16th January, 1915, setting out their understanding of this clause, and the Treasury letter, dated 10th February, 1915, accepting their view.

Witness will then proceed to detail the negotiations with the War Office in connection with an extended and more systematic use being made of the railway companies' shops for munition work, which led to monthly payments being made on account of arrears.

He will quote from a memorandum dated 8th April, 1915, submitted to the War Office, and will refer to the steps taken to increase the manufacture of munitions by the railway companies, and to a further memorandum dated 20th May, 1915, prepared at the request of Lord Kitchener, dealing with the financial questions involved in the extended manufacture of munitions by railway companies.

Witness will refer to the discussion at the Board of Trade on this matter on the 18th June, 1915, when the Treasury representatives agreed to the

suggestions for payments on account contained in the memorandum of 20th May, 1915, subject to further information being supplied justifying the proposed addition of 12½ per cent. to pre-war costs.

Witness will refer to the steps taken by the Government to satisfy themselves as to the reasonableness of the proposals of the railway companies before Treasury sanction, first, as regards rolling stock (Abstract B), and secondly, as regards permanent way, signals, telegraphs, &c. (Abstract A), was given.

Witness will refer to the issue of the agreed arrangements in the printed document dated 25th January, 1916, known as the Yellow Book.

Witness will next proceed to explain shortly the principles underlying the agreed formulæ which are set out in the Yellow Book.

Witness will state that these formulæ were only agreed for the period up to the end of 1915, and will refer to the suggestion that a higher percentage addition, in place of the 12½ per cent., should be fixed for the year 1916.

He will refer (1) to the memorandum handed to the Treasury on 17th December, 1915, (2) to the meeting with the Treasury on the 29th March, 1916, (3) to the letter written by the Railway Executive Committee to the Board of Trade on 23rd January, 1917, suggesting an addition to pre-war costs of 33½ per cent. in respect of arrears accruing in 1916, and (4) to a letter written by witness to Sir William Marwood on 3rd April, 1917.

He will then proceed to explain the difficulties outlined in the last-mentioned letter, which at this stage led the railway companies to suggest that instead of a fixed percentage over pre-war costs, the payments made periodically should be treated as payments on account, and a final settlement be made at the end of control.

Witness will refer to further discussions on this matter with the Government Accountants, the Treasury Officials, and the Board of Trade, which ultimately resulted in the Board of Trade letter to the Treasury of 3rd May, 1917, and (after a meeting on the 19th June, 1917, between the Railway Executive Committee and officials of the Treasury and Board of Trade) to the acceptance in principle by the Government of the railway proposals, and to payments on account being made on the basis of 115 per cent. of pre-war cost.

Witness will refer to a letter from the Board of Trade to the Railway Executive Committee dated 13th June, 1918, dating back the new percentage of 115 to the commencement of control.

Witness will refer shortly to arrears of maintenance outside the arrangement come to for payments on account, and will explain the position in the case of (a) steamboats and (b) other items of expenditure outside Abstracts A and B.

Financial and Accountancy work of the Railway Executive Committee.

Witness will proceed to detail the financial and accountancy work undertaken by the Railway Executive Committee (a) on behalf of the railway companies, (b) on behalf of the Government, and will explain the origin, constitution and main functions of (1) a Joint Committee of general managers and accountants (called at its inception the "Special Committee" and afterwards the Compensation Accounts Sub-committee); (2) the Committee of Accountants; (3) the Committee of Investigators.

He will refer, in dealing with the duties of the Compensation Accounts Committee, to the action taken by them early in 1916 in the case of companies whose expenditure on maintenance of way and works and rolling stock considerably exceeded the corresponding expenditure in 1913.

Witness will then explain the organisation set up, and the duties of these Committees, under the following general headings:—(a) the preparation of instructions for the guidance of railway companies and (b) the supervision of the compensation accounts of the companies.

(a) Witness will refer to the discussions and negotiations with the Government representatives which took place in October and November, 1915, and

which resulted in March, 1915, in the issue of the Blue Book.

He will then briefly refer to the emergency instructions issued on the advice of the Accountants' Committee and subsequently embodied in the Blue Book, and will shortly explain the steps taken by the Accountants' Committee in connection with the issue of the subsequent printed instructions, and the reasons why and the extent to which the successive issues differed from previous instructions.

Witness will then discuss the question how far instructions issued by the Railway Executive Committee on matters of accountancy were and are binding upon the railway companies.

He will refer to the alternatives which were open when the August, 1914, Agreement was made, and will give his reasons for thinking that the course pursued was the right one.

(b) Witness will refer to the observations of Sir William Plender in his memorandum of 29th September, 1914, and will refer to the proposal made later to set up a small committee to scrutinise Compensation Accounts. He will also refer to the decision of the Railway Executive Committee on 14th December, 1914, to appoint a sub-committee of investigators, and will detail the steps taken by the Railway Executive Committee to obtain the assent of the controlled railway companies to this additional accountancy check.

Witness will quote from a circular letter sent out to the railway companies on the 13th January, 1915, announcing the procedure for investigation which had been accepted at a meeting of General Managers of all the controlled companies.

Witness will refer to the instructions given to investigators, and will also produce, if required, a set of questions which were drawn up by the Accountants' Committee in order to direct the enquiries of the investigators to the more important points.

Witness at this stage will explain in summary form the functions and procedure of the three committees in dealing with the examination of claims against the Government.

He will also explain how far it came within the function of these committees to give decisions or express opinions on the merits of any point in dispute.

Witness will comment on the heavy burden undertaken by the members of these committees, and also the anomalous position in which their duties placed them.

He will also refer to the procedure adopted at the request of the Minister of Transport after the passing of the Ministry of Transport Act, and to the criticisms passed upon the railways in the Press and elsewhere with reference to the supervision of railway accounts, and in other directions.

In concluding the main part of his proof witness will refer to the steps taken by the Government accountants and by the Treasury to secure that the railway accounts were properly compiled by devising a stringent form of certificate to be signed by a professional accountant.

He will also quote from a letter dated 1st June, 1915, from the Board of Trade to the Railway Executive Committee, in which are recorded the arrangements made by or on behalf of the Government for a thorough oversight of and check upon the preparation of the companies' accounts so far as these affected the claims against the Government.

Witness will then proceed to deal specifically with the points referred to in the notes handed to Sir Herbert Walker and himself on the 15th December, 1920, so far as they are not covered by what has already been stated, under the following heads:—

1. Generally as to the circumstances surrounding the negotiation of the original agreement as to net receipts; as to the railway view on the connection between the agreement and the Act of 1871.
2. Railway Executive Committee: constitution, powers and functions, *vis-à-vis* Government, *vis-à-vis* railway companies.
3. Investigation of claims: constitution, powers and functions of Investigators, Accountants' Sub-Committee and Compensation Accounts Committee, *vis-à-vis* Government and companies.
4. Government accountants: relations with Railway Executive Committee, Accountants' Sub-Committee, etc., Railway Executive Committee's view as to authority of Government accountants; as to authority of accounting instructions.
5. Division of Revenue Account above and below the line: circumstances surrounding.
6. War Bonus Contributions: circumstances leading up to commutation in 1917.
7. Proviso deduction: as to 1913 being a peak year.
8. Circumstances in which Clause 4 of Blue Book was amended by Circular 686 (increased first cost).
9. Circumstances in which Arrears of Maintenance instructions were amended providing that there should be no set off between abstracts.
10. Circumstances in which arrears of maintenance formula was amended in Brown Book as a result of which Government was charged with the additional cost of excess renewals.
11. Circumstances leading up to formulation of supplementary clauses (Pink Book).

APPENDIX XXVI.

MEMORANDUM WITH REFERENCE TO THE FINANCIAL ARRANGEMENTS BETWEEN THE GOVERNMENT AND THE RAILWAYS.

PRELIMINARY STATEMENT BY WITNESS (SIR ALEXANDER BUTTERWORTH).

Witness will say that he is the General Manager of the North Eastern Railway, and has held that position since 1906.

That he was a member of the Railway Executive Committee from its inception.

Witness at the outset will refer to the letter of the 10th November, 1920, from Sir Herbert Walker to the Secretary of Lord Colwyn's Committee, in which he stated that he had had an opportunity of consulting those General Managers who were his colleagues on the Railway Executive Committee (seven out of the original twelve), and that after carefully considering the request that he should give evidence before the Committee, as Acting Chairman of the Railway Executive Committee, they were unanimously of opinion that it would be improper for any one of them to take this action, in view of what they understood to be the scope of the enquiry to be held by the Committee and of the fact that the agreements in question affected the rights of individual companies and might be the subject of litigation.

He will say that in view of the fact that in the Press it had been freely stated (without any reference to the terms of this letter) that the General Managers had refused to assist the Committee, he would like to explain that the only thing that made the General Managers reluctant to appear before the Committee was the fear that, having regard to their terms of reference, a witness might be placed in a position which would lay him open to the charge of having prejudiced the position of companies on whose behalf he had no right to speak.

Witness wishes to make it clear that he is not appearing before the Committee in order to present the views of the former Railway Executive Committee, still less the views of the railway companies in general, only twelve of which were represented on that Committee.

The general managers understand that what the Committee chiefly desire to hear from them is an account of the circumstances which led up to the various agreements or arrangements and regulations entered into or issued during the war with reference to the Government control of railways on the financial side, and as witness was actively concerned in negotiating or framing a number of these, he has been requested to give the information asked for.

Witness on his own behalf wishes to make it clear to the members of the Committee that he is desirous of rendering them all the assistance in his power. He realises that it may not always be easy, if one is to speak with the freedom and frankness that is desirable, to avoid at times giving utterance to expressions of opinion, or at any rate disclosing or implying views, as to the position between the parties or the ideas and intentions underlying transactions.

But if this should prove to be the case, he desires it to be very clearly understood that, so far as any expression or implication of views is concerned, he represents no one but himself (not even his own company, and still less his former colleagues on the Railway Executive Committee), and he comes before the Committee on the distinct understanding that none of the companies will be prejudiced in any way by anything that he may say in the course of his evidence.

THE FORMATION OF THE RAILWAY EXECUTIVE COMMITTEE AND THE NEGOTIATIONS LEADING UP TO THE AGREEMENT AS TO COMPENSATION.

On the 31st July, 1914, when the outbreak of war was imminent, the Committee held a meeting at which a memorandum, handed to the Acting Chairman by Sir William Marwood (then Mr. Marwood), was read, embodying the proposal of the Government

for dealing with the question of compensation to the railways, if the Act of 1871 were put into force.

The memorandum reads as follows:—

“ To ascertain the compensation payable the aggregate net receipts of all the railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year (query average of three previous years). The ascertained deficiency, if any, less any amount of such deficiency which is attributable to causes other than the operation of the Act, shall be the amount of compensation due. Any question as to the amount of the deficiency attributable to causes other than the operation of the Act shall, in default of agreement between the Board of Trade and the Executive Committee, be determined by the (Railway and Canal Commission).”

“ The sum paid in compensation together with the net receipts of the railways taken over shall be distributed among the railway companies in proportion to the net receipts of each company during the period with which comparison is made.”

“ The above agreement to apply to all the railways represented on the Executive Committee, which will use its good offices to induce other companies to adhere thereto, especially those which it may be of importance to take over under the Act.”

It will be observed that in this document, as throughout the negotiations, the Board of Trade and the Executive Committee are treated as the two negotiating parties on behalf of the Government and the railway companies respectively, though it is recognised that the Executive Committee had no power to bind the companies.

After discussion the Committee decided to submit the following memorandum to the Board of Trade:—

“ The Executive Committee understand that in the event of a national emergency it has been decided that all the railways in Great Britain will be taken over by the Government. The Executive Committee recommend that at the time the railways are taken over, all the dock properties belonging to the railway companies should also be taken over. On the understanding that this will be done the Executive Committee consider that the question of the pooling of receipts does not arise, inasmuch as the Act of 1871 provides all necessary machinery for adjusting any questions of compensation between His Majesty's Government and all or any of the railway companies.”

“ In the view of the Executive Committee the revenue of the railway companies whose railways are taken over will belong to the Government.”

“ Any apprehension that an individual company may obtain an advantage through the transfer of traffic consequent upon the exercise of the powers of the Act, would appear, therefore, to be without foundation.”

This shows that, at any rate at this juncture, it was not the railway companies, but the Government, who were anxious for an agreement based on a pool of net receipts and a Government guarantee. There was nothing in the Act of 1871 that gave the Government the right to set off a gain to one company against a loss to another, and there can be little doubt that the power to do this (in effect, though not in terms) was one of the main objects of the Government in pressing for an agreement on the lines suggested by them.

Indeed, when one considers the provisions of and procedure under that Act, and the need under it of dealing separately with each company whose railway

was taken over, one can see (apart from the great operating advantages which a pool of net receipts would insure) the attraction to the Government of an arrangement of this sort—one form of agreement on identical lines for all companies, and a simple formula disposing once and for all of what was probably the most important, as well as the most difficult of ascertainment, of all the various items of compensation which, in default of agreement, might have to be assessed.

Later on the same day (July 31st, 1914) three members of the Committee saw Sir William Marwood with reference to the memorandum quoted above, and were informed that the Law Officers took a different view from that expressed in the memorandum, and had informed the Board of Trade that it would be necessary for an agreement to be made with the railways as to the disposal of the receipts.

On the 3rd August, 1914 (Monday), the Executive Committee agreed to submit to the Board of Trade the following memorandum as the basis of an agreement between the railways and the Government, and to intimate that if it were approved, they would use their good offices to induce all companies whose systems were taken over to adhere to it:—

“To ascertain the compensation payable, the aggregate net receipts of all the railways taken over during the period for which they are taken over shall be compared with a similar aggregate for the corresponding period of the previous year. The ascertained deficiency shall be the amount of the compensation due. Any question as to the amount of the deficiency shall, in default of agreement, be determined by the Railway and Canal Commission.”

“The sum so payable as compensation together with the net receipts of the railways taken over shall be distributed among the railway companies in proportion to the net receipts of each company during the period with which comparison is made.”

The language of this Memorandum followed exactly that of the proposals of the Board of Trade save for the important omission of any reference to deficiency “attributable to causes other than the operation of the Act,” words which apart from the principle involved would have been certain to lead to endless questions and disputes. The reference to an average of three years, and the words “if any,” are also omitted.

On the 4th August, 1914, the question of compensation was again discussed by the Committee, and a Sub-Committee of four members was deputed to prepare a memorandum, giving the views of the Committee and the reasons to be urged upon the Government to induce them to accept the recommendation made on the 3rd August, 1914. A memorandum was prepared the same day, and the Sub-Committee were requested to present and explain it to the Board of Trade officials on the following morning (August 5th).

In this memorandum emphasis was laid on the desirability of an understanding in advance as to financial arrangements. It was suggested that the essentials of any agreement were that it should be fair to both sides, simple in effect and economical in its results, so far as was consistent with efficiency, and it was intimated that in the view of the Committee the only practicable arrangement, which combined these essentials, was a guarantee to the companies of their normal net receipts. It was pointed out that such an arrangement was usual in other countries in times of emergency: that although certain traffics might be adversely affected or destroyed by the war, the emergency itself would create new traffic and further, that such an arrangement would obviate elaborate accounting, and so effect economy.

On the 6th August, 1914, Sir William Marwood intimated that the Government would be prepared to accept the proposal of the Committee, subject to the following proviso:—

“Provided that if the aggregate net receipts for the first half of the year 1914 are less than the aggregate net receipts for the first half of

“the year 1913, the ascertained deficiency shall be reduced in the like proportion—”

and on the same day, by letter to the Board of Trade, the Executive Committee intimated that they would recommend the companies to accept the arrangement so modified. (The effect of the proviso, added by the Board of Trade on the 6th August, and its subsequent cancellation, are dealt with later on.)

On the 8th August, 1914, an official letter was issued by the Railway Executive Committee to all the controlled railway companies, in which the Committee based their recommendation of the acceptance of the proposed agreement upon:—

- (1) The advantage to the nation from a working point of view, because the Executive Committee would be able to exercise their functions with a single eye to the efficient working of the railways without having to consider the possible effect of any particular scheme of working upon the interests of individual companies.
- (2) The rendering unnecessary the preparation of elaborate accounts and returns and complicated arbitrations.

In the meantime the formation of the Executive Committee and the fact that the control of the railways had been vested in it had been publicly announced (“Times,” August 5th, 1914), and a letter, dated midnight 4/5th August, 1914, had been sent by the War Office to each railway company, notifying them of the Order in Council and the taking over the railways under the Act of 1871. The letter said, “You will carry on as usual, subject to the instructions of the Executive Committee,” thus clearly notifying to the companies the authority of the Railway Executive Committee.

It was evident that an arrangement of the sort come to would offer opportunities to a company to spend money extravagantly or to improve its plant at the expense of the Government, and some of the Government officials were apprehensive that this might be done.

This appears from a letter dated 9th August, 1914, from the Railway Executive Committee to the Board of Trade:—

“DEAR SIR,

“We understand from the statements you made to us to-day that there is some apprehension on the part of the advisers of the Government that advantage may be taken by some companies of the settlement provisionally come to with the Government as to the basis of compensation under Section 16 of the Regulation of Forces Act, 1871, to spend abnormal sums out of revenue on the maintenance and renewal of their lines and stock.

“I have to say that while the Executive Committee cannot believe that any company would be capable of acting in such a manner, they have from the first regarded it as an obligation of honour to protect the Government against the possibility of such an event, and they had before your visit already taken steps to safeguard the position of the Government in this respect.”

“Yours faithfully,

“(Sgd.) H. A. WALKER,

“The President, “Acting Chairman.”
“Board of Trade.”

The Railway Executive Committee were fully alive to the point, although they were confident that action of this character would be very exceptional, if it occurred at all, and in their Circular Letter of August 8th, 1914, they had adverted to the point.

They foresaw, however, that some supervision and co-ordination of accounting methods would have to be established, and on the 9th August, 1914, they set up a Sub-committee of Accountants to consider and report upon the accountancy arrangements and instructions, which the carrying out of the agreement with the Government would call for, recognising that it would be most difficult, if not indeed wholly impossible, for the Board of Trade or the Treasury to

check the accounts and regulate the financial operations of the railway companies (so far as these affected the Government) without assistance from them. In short, to use a phrase in vogue at the time, the Railway Executive Committee decided to constitute themselves the "Watch-dogs" of the Government, and promised the Board of Trade that they would so act, though strictly this was no part of their duties.

Indeed, in all that passed before the war or during the negotiations which culminated in the agreement of 6th August, 1914, no hint had been given that the Government looked to the railway companies for assistance in matters of accountancy, and of course there was nothing in the Act of 1871 to cast any such duties upon them.

One of the first acts of the Committee of Accountants was to draft emergency instructions (which were sent out to the companies on the 19th August, 1914), explaining the line to be drawn, as regards revenue and expenditure, between items arising before or after 5th August, 1914, payments to families of Reservists and Territorials, etc., etc.

(This was the first set of accountancy instructions sent out under the authority of the Railway Executive Committee; the whole question of such instructions, their authority and force, is discussed later.)

The setting up of this Committee of Accountants was no doubt one of the steps referred to in Sir Herbert Walker's letter of 9th August, 1914.

Probably another was the preparation of a further letter to the companies, which was circulated on the 13th August, 1914, and in which the whole subject of the spirit and intention of the agreement and the obligations which would be cast upon the companies, was dealt with at considerable length.

The following are extracts from the letter:

"It is hardly necessary to point out that the arrangement is one which, in spite of its great convenience both to themselves and the companies, the Government could not have agreed to, had they not been assured of the absolute good faith of the companies, and had they not felt certain that they could rely on all officers of the companies concerned acting loyally up to the spirit of the arrangement.

"Broadly speaking, the idea underlying the arrangement is that the financial results to each company for the period of Government control shall be the same as if the railways had remained under the control of the companies and the receipts and expenses of each railway had been the same as they were in the corresponding period of the previous year, subject to a deduction proportionate to any falling off in net receipts disclosed by the accounts of the companies as a whole for the first half-year of 1914. The result is that during the period of Government control the advantage of all economies will enure to the benefit of the Government, and, correspondingly, the whole burden of expenditure will fall on them."

"This state of things obviously imposes an honourable obligation upon the companies to see that all proper economies are made, and that no abnormal or unnecessary expenditure is incurred."

"Again, it may be found that certain trains have become unnecessary or have ceased to be remunerative. In these cases the Government will naturally expect each company to reduce its train service from time to time, so far as it can reasonably do so."

"Then, again, questions may arise as to the amount to be expended on the maintenance and renewal of way and works or rolling stock. Under these heads it will not be open to a company to include in its working expenses any greater sum than is required to maintain its works and plant in an efficient condition, including due allowance for renewals, and if

"the expenditure of any company upon any item of maintenance exceeds the corresponding figure in the previous year, the Government will no doubt, in the absence of special justification, expect it to be shown that the additional expenditure was rendered necessary by their requirements, or by the exceptional character or quantity of the traffic carried during the period of Government control. This point has been definitely raised by the Treasury, and the Executive Committee have had no hesitation in giving an assurance, on behalf of all the companies taken over, that no unfair advantage will be taken of the present situation in connection with the renewal of works or plant."

Reference may here be suitably made to the efforts made by the Railway Executive Committee throughout the war to keep down expenses as far as practicable with the object of reducing to the utmost possible extent the burden on the nation of the Government guarantee.

As an illustration may be quoted the Circular Letter of 17th September, 1914, advising the reduction of train services, both passenger and goods, to meet decrease in traffic and saying "the obligations of the Executive Committee to the Government make it necessary that every effort should be made to curtail working expenses."

In subsequent instructions directions were issued extending this policy to economies in other directions, e.g.—(i) in the user of coal, stationery and timber (in some cases admittedly owing to national shortage); (ii) by the stoppage of canvassing and advertising; (iii) by placing limitations on passengers' luggage, slowing down trains and other economies in working; (iv) taking steps to reduce the amount of clerical work.

In many of these decisions the Railway Executive Committee were, in addition to reducing working expenses, actuated by a desire to liberate men for military service

As confirming the foregoing, attention may be drawn to paragraph 98 of the Third Report (1918) of the Select Committee on National Expenditure (C.D. 59), which says:—

"Since the companies are secured against loss, no matter what their expenditure may be, and since their management remains in the hands of their former officials, there is an obvious danger of relaxation of control, and of a consequent increase of costs. Our sub-committee, which has been investigating this subject, has made careful enquiry into this aspect of the matter so far as relates to Great Britain. It has found no reason to conclude that such results have occurred. The causes which continue to make for economical management are, first, the desire of the directors, the managers and their staffs, as good citizens, to protect the public interest by preventing extravagance from which the taxpayer would suffer; and, secondly, the prospect that after the war the effects of any laxity of control would continue. Whether the railways reverted to private management and the shareholders suffered the loss, or whether they remained in the hands of the State, the officials who had been to blame for waste would be held responsible, and their future would be prejudiced."

On the 13th September, 1914, the Executive Committee notified the Board of Trade that all the companies taken over had signified their acceptance of the Agreement, and the Board of Trade took the opportunity to make a public announcement in the Press as to the terms of the Agreement between the Government and the railway companies.

Definition of the term "Net Receipts" and Periodical Payments on Account.

It will be noticed that although the Agreement provided for the ascertainment of the amount of compensation due and the manner of its distribution among the railway companies, nothing was said either as to what "Receipts" should be included in the

arrangements or as to when payment was to be made.

Early in the control period, partly in view of the companies not being paid for special work (outside conveyance) done for Government Departments, and partly because the cash receipts of some companies were very much reduced, with the result that they had to apply to their bankers for an overdraft (for the Government were making no payments for the conveyance of military and naval traffic), the question arose of approaching the Government as to finding the necessary money to pay current expenses and meet bank interest.

The two questions, viz.: the definition of net receipts and the date of payment of compensation, were closely connected, because much turned upon whether "general interest," which forms a head of "Miscellaneous Receipts," was to be included in the Government guarantee.

A Committee of four general managers was appointed (21st and 26th August, 1914) to consider the matter, who, in consultation with the railway accountants, prepared a memorandum and report in which they recommended (1) the exclusion of miscellaneous receipts from the guarantee and (2) payments on account by the Government at fairly short intervals, an arrangement which they thought would afford a satisfactory solution of the interest question, both as between the Government and the companies and as regards the companies *inter se*.

The Committee's report was submitted to the Railway Executive Committee on 31st August, 1914, and they were requested to arrange a meeting with the Government.

Previously to this, as appears from a letter (21st August, 1914) from the Board of Trade to the Treasury (set out on page 7 of the White Paper), the former had, as a result of representations from the Scottish railway companies, recommended to the Treasury that the companies should receive periodical payments on account. (Three months was suggested.)

The meeting with the representatives of the Government was held on the 8th September, 1914, when Sir William Plender made a proposal on the same lines as that recommended by the Committee, with the result that the Board of Trade, after communicating with the Treasury, wrote to the Executive Committee on the 12th October, 1914, to the effect that, as proposed by the Railway Executive Committee, net receipts should, for the purpose of the agreement, "be taken to mean the net receipts covered by the first seven items in Account No. 8 of the first schedule to the 1911 Act, and that 'miscellaneous receipts (net)' should not be included." The views of the Treasury are set out in a letter dated 9th October, 1914, from Sir Thomas Heath to the Board of Trade.

In the same letter (12th October, 1914) it was intimated that the Treasury were prepared to make monthly payments in full of the estimated Government liability under the agreement, "subject to reconsideration after the 31st March next, and to there being from time to time money available out of the sums placed at the disposal of the Treasury by Parliament."

These arrangements were communicated to the companies by the Railway Executive Committee (15th October, 1914) in a letter which spoke of the "great advantage of monthly payments" being sufficient to justify the companies in accepting the definition of net receipts desired by the Government.

There seems to have been a little confusion as to the parentage of the suggestion that "Net Receipts" should be limited to the first seven items of Account No. 8, because the letter of the Board of Trade (12th October, 1914) speaks of the definition as a proposal of the Railway Executive Committee.

The point is not very material. The first idea of the railway companies seems to have been that the whole of the items in Account No. 8 should be included, but this would have involved some special arrangement with regard to interest, because a "credit" for interest is treated in railway accounts as an item of receipt, going to make up the net revenue, while a "debit" is not brought into the

accounts till a later stage—that is, it is treated as a deduction from or payment out of net revenue.

There seems no doubt that the definition agreed on was thought the simplest at the time, and it saved the Government from the risk of loss, which the correspondence shows was apprehended, through a guarantee of interest; on the other hand it had the disadvantage of creating a diversity of interest between the Government and the companies in any matter where questions of interest were involved.

Apart from the question of interest, the inclusion of some of the items of revenue outside railways proper, e.g., hotels, steamboats, etc., was distinctly advantageous to the Government. In the case of steamboats the result in effect was that the Government obtained the use of the railway fleet, representing a capital expenditure of some £7,000,000, for an annual net payment to the companies of about £150,000. If the companies had not agreed to their steamboats being treated as falling within the provisions of the Act of 1871, and the revenue derived from them brought into the agreement, they would presumably have received, for such of their vessels as were taken over by the Admiralty, charter money on the same lines as was paid to shipping companies and private owners, and it has been roughly computed that this would have involved a payment by the Government of more than £1,000,000 a year.

Extension of Compensation Agreement to 1915.

Before the year 1914 was out it became necessary to consider the position as regards the year 1915.

When the agreement with the Government was made, probably neither party contemplated the contingency of its being extended beyond the year 1914; at any rate, the wording of the agreement was not appropriate or free from ambiguity, if applied to the year 1915. Before the end of 1914, however, it became clear that provision had to be made for a much longer period than had originally been in contemplation.

The question of asking the Government to agree to some basis of arrangement as from January 1st, 1915, was therefore referred by the Railway Executive Committee to a sub-committee to consider and report. On receipt of the sub-committee's report it was decided that it was desirable that—

- (1) A final settlement should be made of the accounts up to the end of 1914.
- (2) The agreement should be applied to the year 1915 as if the year 1913 were "the previous year."
- (3) The "proviso" should be dropped as from the commencement of 1915.

A meeting was held with the President of the Board of Trade on the 19th January, 1915, when points (1) and (2) were agreed, and this was confirmed by Treasury letter of 9th March, 1915.

As regards the proviso, the President asked for particulars of traffic, and this point was not conceded until three months later (April, 1915) when, arising out of the war bonus to railwaymen, a modified agreement, to operate as from the 1st January, 1915, was arrived at.

The history of this matter is as follows:—

At the end of 1914 or beginning of 1915 the railwaymen raised the question of an increase in wages in consequence of (a) the increase in cost of living, and (b) the abnormally high wages being paid for munitions work. Discussions took place at several meetings of the Railway Executive Committee and in February, 1915, some of the general managers, representing 26 companies, met representatives of the railway unions, and agreed to pay the first war bonus (2s. or 3s. per week according to whether a man's standard rate did or did not exceed 30s. a week) on and from the week commencing February 15th, 1915. Other companies negotiated a similar settlement independently. The bonus was limited to men in the Conciliation Scheme grades, and did not extend to either shopmen or clerks.

The question as to how the war bonus should be treated in the working expenses of the railways, i.e., whether it should be borne by the Government or by the companies, was discussed with the Board of Trade by Sir Guy Granet in February 1915, the

view of the Government being that the cost of the bonus should be borne by the companies, on the ground that a similar advance might have had to be paid apart altogether from the war and Government control, in other words, that it was being paid, at any rate in part, in respect of overdue advances of wages. On the other hand, the view held by the companies was that the whole amount of the bonus should be borne by the Government, on the ground that the bonus was due to the abnormal conditions caused by the war, just as much as the increases in the prices of materials, and that the original bargain clearly covered any increase in working expenses. On the 17th February, 1915, a letter was written to the Board of Trade by the Railway Executive Committee protesting against the view which the Government was understood to hold. The view of the Government seemed to them inconsistent with the elimination of the words in the Government's original memorandum of agreement, which the Railway Executive Committee stipulated for as an essential part of the compensation arrangement. (Ante p. 2.)

Shortly before this, as above-mentioned, viz., at the meeting at the Board of Trade on the 19th January, 1915, the Railway Executive Committee had asked the Government that the "proviso" should cease to operate.

It will be remembered that the "proviso" was a stipulation which the Board of Trade pressed for in August, 1914, the suggestion being that the accounts of the railway companies for the first half-year of 1914 showed a drop in receipts, indicating falling traffic, and that it was a fair inference that, apart from any war, the revenue of 1914 would probably have been less than that of 1913.

The Railway Executive Committee, though they had accepted the proviso, and to that limited extent may be said to have admitted the argument of the Government, had never been satisfied of its fairness. It was based on surmise, it worked unequally between different companies (e.g., the net receipts of many companies were higher in 1914 than in 1913), and the arguments on which it was based seemed to disappear altogether when the war traffic exceeded all anticipations, and the bargain of 1914, without any proviso, proved to be unexpectedly favourable to the Government.

The figures were as follows:—

	£
January to June 1913 (net receipts) ...	20,266,044
" " 1914 " " ...	19,533,543
	<u>£732,501</u>

the £732,501 which is equal to 3.614425 per cent. of £20,266,044, being made up of:—

	£
Decreases	817,559
Increases	85,058
	<u>£732,501</u>

and the effect of the proviso being that the deficit, for which the Government were responsible, became subject to a reduction at the rate of 3.614425 per cent.

The arrangement discussed and finally agreed to in April, 1915, was in the nature of a compromise, the Government conceding the railway companies' point as to the proviso and the Railway Executive Committee agreeing to pay part of the war bonus. The actual terms were as follows:—

(1) The companies to agree to bear 25 per cent. of the bonus allowance to men in the Conciliation Scheme as defined by the agreement signed on 13th February, 1915.

(2) The Government to agree to treat as a normal item in working expenses any other advances granted to other classes of railway employees.

(3) The Government to agree to abolish the proviso as from 1st January, 1915, that is to say, that the net receipts for the year 1913 without reduction should constitute the basis of comparison for the purpose of compensation.

Witness is able to say from his own knowledge that the Railway Executive Committee did their utmost in this matter to meet the views of the Government; they felt strongly that the bonus was beyond all doubt a legitimate item in working expenses, but they recognised that the question of war bonus, which was then a new one, had a political side, which the Government could not afford to ignore, and though they thought that, in all the circumstances, the "proviso" might very well have been dropped on merits, they fell in with the suggested compromise after no little searchings of heart.

The agreed terms were submitted to and accepted by all the controlled companies, and the agreement came to in August, 1914, so modified and amplified by the arrangements, subsequently made with the Government on various matters hereinafter referred to in detail, is still being acted upon.

That this agreement worked favourably to the State is assumed to be generally recognised both by the Government and independent authorities. For the purposes of record reference may be made to the following:—

(a) Paragraph 97 of the Third Report of the Select Committee on National Expenditure (1918) (C.D. 59) says:

"Had prices not risen, and had wages remained stationary during the war, the State would have made an excellent bargain in securing the free carriage of all its traffic, even apart from the advantage of controlling the railways, including the steamers belonging to the companies, in return for a guarantee of the pre-war net receipts. Even as things are, there is reason to believe that, if that traffic had to be separately charged, the sums payable by the State would probably be greater rather than less than those now paid."

(b) In the debate on the Ministry of Transport Bill in the House of Lords (Hansard, House of Lords Debates, vol. 35, p. 988), on 23rd July, 1919, the Earl of Lytton said:

"What the noble Lord has pointed out to-day is perfectly true, that down to this year the Government did not make a bad bargain. With the Government traffic that was carried free, the guarantee of the net receipts of 1913 was not at all a bad arrangement for the Government. The difficulty has arisen only in this year from two causes—partly the great increase in the cost of working the railways, as of working everything else, largely due to the increased cost of labour, and partly to the falling off in the Government traffic."

(c) The results of the working of the railways during the control period, up to the end of the year 1918, as shown in the statement issued by the Ministry of Transport, dated 31st October, 1919 (Cmd. 402).

THE SUPPLEMENTARY CLAUSES TO THE GENERAL AGREEMENT ARE CONTAINED IN A PRINTED DOCUMENT (PINK BOOK) CIRCULATED WITH CIRCULAR LETTER 729, DATED 14TH NOVEMBER, 1916.

The Treasury assent to these Clauses was given on the understanding that the companies accepted the Treasury interpretation of the main agreement (namely, that the military and naval traffic was not to be charged for), and that a complete and satisfactory arrangement was arrived at in connection with the question of the charges to be raised for services of all kinds rendered by the railway companies to the Government.

When the agreement of 6th August, 1914, was made, nothing was said, and no provision was inserted in the memorandum embodying the arrangement, with reference to the disposition of any surplus. It was assumed on both sides that the railway accounts must show a deficit throughout the war, and the only thing that seemed necessary was to provide for that contingency, namely, by a Government guarantee, and obviously a guarantee

does not have the effect, in the absence of express stipulation, of transferring the income or receipts of the guaranteed party to the guarantor.

Neither did the agreement contain any express provision on the subject of charges on Government traffic. There again the assumption of a continuing deficit made the point appear to be immaterial and academic, but of course if there were any chance of the deficit being turned into a surplus, it became a matter of prime importance whether the understanding that charges would not be raised in respect of Government (*i.e.*, military and naval) traffic, was founded on mere considerations of book-keeping or was an integral part of the bargain under which a certain revenue was guaranteed to the companies. Was the minimum which was guaranteed to them intended to be also a maximum? If so, it was possible to conceive circumstances in which the State would get its forces and munitions of war carried, not merely at cost price, but without payment of any sort.

In the summer of 1915 various requests by Government Departments that the cost of services performed by railway companies might be charged against railway working expenses were under discussion, and on 23rd July, 1915, a meeting was held at the Board of Trade to discuss these requests, when the matter was deferred for further consideration in view of the questions of principle involved.

On the 1st September, 1915, Sir William Marwood wrote to the Railway Executive Committee on the question of charges for services rendered to the Government, stating that the Treasury regarded the free carriage of men and stores for Naval and Military purposes as an essential part of the agreement with the companies, and that the right of the Government to these free services and the consequent relief from the necessity of keeping accounts was what mainly induced them to enter into the agreement of August 6th, 1914.

This was not the view of the Railway Executive Committee, and the point was not then conceded by the companies.

It so happened that about the same time questions had arisen which pointed to the need of amplifying the extremely concise agreement of 6th August, 1914, and the Railway Executive Committee were turning their minds to the question whether it would not be well to approach the Government on the subject of revising or supplementing the original terms, especially in view of the growing certainty that the war, and therefore the period of Government control, was going to be a long one. Amongst other subjects the position of the companies, and the responsibility of the Government, with regard to damage from air raids had for some time been under discussion; again it was obvious that if the period of control were to be greatly prolonged, some arrangement must be come to with regard to further capital expenditure.

On the 2nd November, 1915, four of the general managers, met Sir Thomas Heath and Sir John Bradbury, when a general indication was given of what the railway companies had in mind, and the Railway Executive Committee were asked to tabulate the various points which it was desired to bring up for revision.

A memorandum was prepared, which was handed to the Treasury on the 17th December, 1915, and on the 4th January, 1916, a further meeting was held with Sir Thomas Heath and Sir John Bradbury, at which they agreed in principle with the fairness of the companies' claim for revision of the agreement, but asked for some information as to the amount of money involved.

Approximate estimates were supplied in a letter from Sir Alexander Butterworth to Sir Thomas Heath on the 13th January, 1916.

The Treasury then referred the matter to the Government accountants, and on the 31st January, 1916, the Compensation Accounts Committee had a meeting with those gentlemen (Sir William Plender and Mr. Gurney Fowler) at which the points raised in the memorandum supplied to the Treasury were considered in detail.

At a further meeting with Sir Thomas Heath and Sir John Bradbury at the Treasury on the 29th March, 1916, they explained the manner in which they were prepared to advise the Chancellor of the Exchequer to deal with the six points raised in the railway companies' memorandum.

The result of this meeting is set out in a letter from Sir Alexander Butterworth to Sir Herbert Walker, dated 30th March, 1916, which was approved by Sir Thomas Heath and Sir John Bradbury as being a correct record of the meeting.

The Treasury authorities subsequently approved Circular Letter 655 (which was issued to the companies for their information and approval prior to the preparation of the printed document) and the draft supplementary clauses accompanying that letter, and after all companies had agreed to accept the new clauses (two companies dissented for a time) the clauses were issued in book form (Pink Book).

The Clauses in question are six in number and dealt with the following subjects, *viz.*:

- (1) Capital Expenditure.
- (2) Stores.
- (3) Allowances to Dependants of Service men.
- (4) Damage by Air Raids.
- (5) Charges for services to Government.
- (6) Adjustment of accounts.

These are not identical with the six points referred to in the explanatory memorandum prepared by the Railway Executive Committee, which were as follows:—

- (1) Capital Expenditure.
- (2) Stores.
- (3) The Proviso.
- (4) Inclusion of 100 per cent. of War Bonus in Working Expenses.
- (5) Charges for renewal of Permanent Way and Rolling Stock.
- (6) Allowances to Dependants of Service Men.

For convenience of reference these latter points, as well as the other matters dealt with in the Clauses, are shortly explained below:—

1.—Capital Expenditure.

Owing to the expectation that the period of control would be short, no provision had been made for additional capital expenditure. This was considered unfair to the companies, as the Government were getting the benefit of capital expenditure which was not yielding a return in 1913.

The Railway Executive Committee proposed that interest should be allowed by the Government on capital expended on works, etc., brought into use since December 31st, 1912.

The principle of this proposal was admitted by the Treasury to be fair; 4 per cent. was agreed to be a moderate rate of interest, and the matter was included in the Supplementary Clauses (No. 1).

It will be convenient as a matter of history to refer at this point to the circumstances in which the rate of interest was changed from 4 per cent to 5 per cent.

In the latter part of 1918 the attention of the Railway Executive Committee was called by certain companies to the financial difficulties in carrying out the necessary capital works, and on the 7th May, 1919, a letter was addressed by Sir Herbert Walker to the Acting President of the Board of Trade on the subject, in which reference was made to the expenditure required in connection with—

- (a) New sidings and railways or alterations asked for by firms and others in order to enable them to increase their premises and output.
- (b) Schemes of alteration necessary to enable economies in working to be effected by the railway companies.
- (c) Alterations, widenings, rebuilding of stations, provision of rolling stock, etc., necessary to enable the railway companies to adequately deal with the normal increase in traffic.

And the difficulties arising out of:—

- (a) The inadequate amount allowed for interest on capital works brought into use, *i.e.*, 4 per cent.
- (b) The fact that no interest is allowed until the works are brought into use.

- (c) The heavy increased cost for carrying out the work at existing rates of wages and prices of material.
- (d) The uncertainty as to how the railway companies will be recouped for such expenditure in the case of the Government deciding to take over the railways.

On the 30th May, 1919, the Board of Trade wrote in reply conveying Treasury sanction to the following arrangement:—

- (1) "That in place of the present arrangements between the railway companies and the Government with regard to the rate of interest to be allowed on new capital expenditure, interest at the rate of 5 per cent. per annum from the date on which the expenditure is incurred may be allowed in respect of approved capital expenditure.
- (2) "That an assurance may be given to the companies that in the event of their undertakings being acquired by the Government the companies shall neither be financially prejudiced nor financially advantaged by reason of having incurred capital expenditure under the present arrangements."

The letter enclosed one from the Treasury, dated 23rd May, 1919, which said:—

"I am to request you to inform the Board of Trade that in view of the considerable funds possessed by the railway companies, My Lords see no reason for providing for the expenditure on new works and rolling stock by advances from Government Funds. They recognise that the interest obtained upon present investments may, in many cases, be in excess of 4 per cent., and they are accordingly prepared to concur in the rate of interest allowed on capital expenditure on new works or additional rolling stock after the 1st instant being raised to 5 per cent., such interest to begin to accrue as from the date when the capital expenditure is incurred."

These two communications were discussed by the Compensation Accounts Committee, and after one or two points of doubt had been cleared up with the Treasury, Circular Letter No. 1930, dated 15th August, 1919, was issued by the Railway Executive Committee advising the companies of the general terms of the arrangement.

On 7th November, 1919, a Circular Letter, No. 2001, was issued setting out the procedure to be followed for obtaining the approval of the Government to new works.

Later, a question arose as to the overlapping of the two arrangements, i.e., (1) the allowance of 4 per cent. upon new works generally from the date of completion and (2) the allowance of 5 per cent. upon approved works as and when the expenditure was incurred, and this was dealt with by the Ministry of Transport.

Detailed regulations in regard to the compilation of claims for 5 per cent. interest were also agreed with the Minister of Transport and issued to the companies with Circular Letter S. 104, dated August 12th, 1920.

2.—Stores.

The main agreement was silent as to the method of charging for material taken from the stocks of the companies during the period of control, and it would have been open to the companies to retain on hand the stocks of stores existing at the outbreak of war. The companies, having given the Government the benefit of their stocks bought before the war at pre-war prices, ran the risk of finding themselves burdened with stocks bought at inflated prices. The point was one which clearly called for safeguarding, and in the absence of express provision there might be disputes at the end of control as to what had been the intention of the parties.

The Railway Executive Committee suggested that the best way would be for the Government to put the companies (by cash payment) at the end of control in the same position as regards stocks of stores as they were in at the beginning.

This was considered by the Government and their advisers to be reasonable in principle, and the proposal of the Railway Executive Committee, with a slight modification, was embodied in the Supplementary Clauses (No. 2).

3.—The Proviso (August-December, 1914).

As already stated, the "proviso" was added by the Board of Trade to the proposal of the Railway Executive Committee in August, 1914, on the ground that, apart from the war and Government control, there was every probability that the net receipts in 1914 would be less than in 1913. The proviso had been dropped as from 1st January, 1915, in connection with the arrangements as to war bonus (ante p. 5) but the Railway Executive Committee contended that the proviso would never have been suggested had there been any anticipation of the enormous traffic that was passing, and they asked, therefore, when discussing the question of surplus receipts, that it should be treated as never having existed, and that the accounts August to December, 1914, should be adjusted accordingly (see next item).

4.—War Bonus.

They also contended that there was no justification for excluding from the working expenses of the companies any part of the war bonuses conceded by the Government to the railwaymen, and asked that they should cease to bear the 25 per cent. of the original war bonus as arranged.

The Government were not prepared to concede these two points, in view of the definite bargain come to in April, 1915, above referred to (ante p. 5).

No doubt the Railway Executive Committee in this instance were asking the Government to relieve the companies from an agreement entered into twelve months previously, but it is only fair to state that there had been an acute difference in opinion between the members of the Railway Executive Committee at the time as to the propriety of the companies agreeing to bear any part of the war bonus, and the retrospective cancellation of the proviso for the period August-December, 1914, though involving but a small sum of money, and, therefore, seemingly hardly worth asking for, was thought to be a very legitimate concession to seek, if the companies were to abandon all claim to surplus receipts.

5.—Renewal of Permanent Way and Rolling Stock.

It was pointed out that the present regulations worked hardly on "non-programme" companies, and it was, therefore, suggested that companies should be allowed to charge for renewals as much as they included in their 1913 accounts, irrespective of actual expenditure, and that in connection with such charges additions to rolling stock or mileage of lines should be allowed for.

Under the regulations, as they stood, a "non-programme" company (i.e., a company that had not been in the habit of basing its renewals upon any fixed formula) could include nothing in its working expenses against the Government for renewals, unless it had actually carried out renewals in the year under review, and then only to the extent of the work carried out.

This suggestion was approved, and the regulations were altered accordingly (C.L. 686).

Opportunity was taken at the same time to clear up certain ambiguities in the wording of this part of the regulations; this is referred to more in detail later (pp. 20 and 21).

6.—Allowances to Dependents.

A limit of 10s. per week had been fixed as the maximum allowance to the dependents of Service men chargeable against the Government. The companies had undertaken in all cases to bring the separation allowances up to four-fifths of salary or wage, and this in many cases exceeded 10s. a week.

It was agreed that the limit of 10s. should be cancelled, and this was included in the Supplementary Clauses (No. 3).

Other matters which were discussed at the same time were:

7.—*Arrears of Maintenance of Steamboats not taken over by the Admiralty.*

It was agreed that this should be dealt with at the end of control.

8.—*Leap Year, 1916*

The companies considered that they were entitled to a proportionate addition for the additional day in the year 1916, but the Government were not willing to concede this point, and the Railway Executive Committee did not press it.

9.—*Damage by Bombardment or Aircraft.*

The Government agreed to bear the cost of reinstatement of property "above the line," regardless of the date of reinstatement, but not of property "below the line." This arrangement was embodied in the Supplementary Clauses (No. 4).

10.—*Adjustment of Accounts.*

In addition to the foregoing, Clause 6 (Adjustment of Accounts) provided as follows:—

"Every company to give an undertaking to repay to the Treasury or to any person nominated by them any sums which on a final settlement of the accounts of any period ending 31st December may be found to have been received or retained by such company in excess of the amounts due to them, together with interest at the rate of 5 per cent. to run from the 1st March following the close of any such period."

Inasmuch as the companies made up their own claims it was only fair that where items had been included in the claims paid by the Government and subsequently disallowed, such sums should be refunded, and also that interest should be paid on the amount, seeing that a long interval often occurred between the last monthly payment in respect of any year and the final settlement of the claim.

This matter had been under consideration in the early months of 1916, when it was brought to the notice of the Railway Executive Committee that the expenditure of many companies in 1915 upon maintenance of way and works and rolling stock considerably exceeded the corresponding expenditure in 1913.

The whole question of surplus receipts was practically disposed of by annexing a schedule to the clauses (see Clause 5), which set out a list of services and stated how the charges for each class of service should be dealt with; it was provided that there should be no cash payments in respect of the conveyance of troops, or of military and naval stores, etc.

ARREARS OF MAINTENANCE.

At the beginning of control no special consideration was given to arrears of maintenance, as at that time few people realised how long the war was likely to last, and so far from people anticipating a difficulty in getting work done, there was a general apprehension of unemployment.

When, however, the Government agreed to payments being made monthly on account of compensation, and instructions were drawn up and issued to the companies as to the manner in which the statements showing the liability of the Government should be made up, the question of arrears was raised. Obviously any estimates of the Government's liability under the agreement would have been misleading that took no account of arrears of maintenance.

A document headed "Summary of Recommendations upon certain matters requiring settlement in connection with compensation to be paid by the Government in respect of the period of Control," which was prepared by the railway companies and discussed with the Board of Trade and Treasury on the 14th October, 1914, contains the following reference to the subject:—

"14. Having regard to the large amount of work which is being done for the Government in the construction of road vehicles, ambulance trains, stretchers, etc., and the diminution of the staff employed in the repairs of way, works and rolling stock, etc., by those who have

"joined the Colours, and to the large number of permanent way men engaged in watching and patrolling the line, it is probable that the upkeep of the works and equipment of the companies may be considerably in arrear at the end of the period of control. As this arrear of work must be performed by the companies after the termination of the period of control, it is suggested that the Government may reasonably be asked to sanction a charge to the revenue of the control period on that account."

The notes of this meeting show that Sir William Marwood presided, and that representatives of the Treasury and Sir William Plender were also present on behalf of the Government, whilst the railway companies were represented by members of the "Special Committee."

Sir William Plender "indicated in regard to No. 14 (Arrears of work during Control period) that in his view the proposal was quite reasonable, and that any claim made under this head should be considered on its merits."

Following this meeting the Railway Executive Committee on 27th October, 1914, decided, in view of the fact that various kinds of work were being undertaken by the companies for the Government in their workshops, and that ordinary railway maintenance would suffer thereby, to write to the Board of Trade giving details of such work.

In the letter (27th October, 1914) they pointed out that "such work necessarily involves the postponement of the usual renewal and repair work which would otherwise have been carried out to the various railway companies' plant, the cost of which would, under the agreement come to with the Government, have been included in the expenses incurred during the period of Government control." The letter went on to say, "we think it should be made clear that the railway companies may sooner or later have to include in their claim against the Government a sum to cover the cost of the work which is deferred and which will have to be overtaken."

Further discussions took place, mainly between Sir William Plender and the railway accountants, and, ultimately, a paragraph dealing with the matter was inserted in the instructions which, with the approval of the Treasury, were issued to the companies in 1915 (Blue Book), the final wording of the paragraph relating to Arrears being suggested by the Treasury in their sanctioning letter, dated 1st January, 1915, as follows:—

"In the event of the companies being of opinion that arrears of normal maintenance work have arisen during the control period, His Majesty's Government have undertaken to consider on their merits any representations submitted to them; and, if necessary, a statement should be prepared at the end of the control period of any liabilities of this nature not included in the accounts prepared currently. (No such statement will be required in cases where provision is made for maintenance by carrying definite sums to a special fund in anticipation of actual expenditure.)"

In acknowledging this letter to the Board of Trade on January 16th, 1915, the Railway Executive Committee say:—

"They are prepared to accept the form of words suggested by the Treasury in substitution of Clause 4 (e) (Arrears of Maintenance Work).

"In view, however, of the importance of the point, and of the generality of the language used to express the undertaking of the Government, they think it right to place on record their understanding that, in this clause, the Government admit the principle that, if in the special circumstances obtaining during the period of control, a railway company has to postpone works of maintenance (i.e., the repairs and renewals of its works and plant) which in the ordinary course would have been executed within the period and their cost charged as working expenses, the cost of such

"works, when they come to be executed, is a fair charge against the Government. The Railway Executive Committee feel bound to emphasise this point because without a distinct understanding with regard to it, they would not feel justified in advising companies, as they have been doing, to undertake the manufacture of the very numerous articles of military equipment which are being made in the shops of many of the companies, work which is obviously outside the ordinary functions of a railway company, and the execution of which must necessarily interfere seriously with the upkeep of the companies' undertakings."

The Treasury in a letter to the Board of Trade, dated 10th February, 1915, accepted this view of the understanding, and formal confirmation was sent by the Board of Trade to the Railway Executive Committee on the 13th February, 1915.

It will thus be seen that the earliest arrangement in regard to arrears of maintenance and renewal work, which, though it was not limited to any particular class of works or plant, had its origin mainly in the fact that the railways were undertaking work for the Government other than railway work proper, provided for the preparation of claims under this head at the end of the control period. It was not, however, long before that was superseded by an arrangement under which monthly payments were made on account, while the fact that companies were undertaking various forms of munitions work was found to be only one of many causes, all contributing to the accumulation of arrears.

From the first the railway companies were probably in a position to claim current payments under the arrangements already in operation, on the ground that they were entitled to make provision in their accounts for unexecuted works of renewal and repair and to charge the same as part of their working expenses, apart from any special agreement under this head, seeing that there can be no proper ascertainment of "Net receipts" until proper provision has been made for outstanding liabilities of all kinds.

As bearing upon this point, reference may be made to Sir William Plender's observations in the Memorandum submitted to the meeting on the 14th October, 1914, to the effect that "in setting up reserves for depreciation or provisions for maintenance of locomotives, carriages and wagons, permanent way, bridges, stations, etc," should "follow strictly the methods" adopted in 1913, and it may be assumed to have been the general practice of companies to make provision out of current revenue for works of maintenance which circumstances prevented their executing at the time.

However, the point was one of such magnitude that it was obviously desirable to have a clear understanding about it, and to agree upon a definite procedure, which should be fair to both sides.

Accordingly, during the year 1915 negotiations took place with the Government, which were conducted less upon any arguments of legal technicality than upon broad grounds of equity and convenience, and which resulted in an arrangement under which monthly payments on account were to be made to the companies in respect of certain "arrears of maintenance" outside and apart from their monthly compensation payments.

The successive stages of the negotiations may be traced as follows:—

In April, 1915, the Railway Executive Committee suggested to the War Office the national benefit to be derived from fuller and more systematic use being made of railway companies' shops for munitions work. One of the points to which attention was drawn was that if this were done, it would result in a large increase in the arrears of maintenance of rolling stock, and it was pointed out that in that case it would not be practicable to adhere to the existing understanding, under which the settlement of all claims under this head was to be deferred until the termination of control.

The question was dealt with in a Memorandum dated the 8th April, 1915, prepared by the Railway

Executive Committee for the Secretary of State for War, paragraph 2 of which is as follows:—

"(2) The Government should definitely assume liability for arrears of maintenance work by the companies. It is obvious that if railway companies are to carry out their transport work efficiently it will be impossible to postpone repairs indefinitely. Indeed, some repairs, e.g., running repairs, must be carried out currently, but at the same time, it is anticipated that, for a certain period at any rate, companies as a whole can safely postpone a portion of their repairs and employ the staff in manufacturing for the Government in the railway shops. If, under these circumstances, the railway companies manufacture for the Government on a large scale, it is certain that the arrears of maintenance will be serious. The Treasury has already admitted the principle that arrears of maintenance form a legitimate head of claim against the Government, but it is not proposed to deal with such claims until the end of the period of control. This will not be a practicable way of meeting the situation if manufacturing for the War Office is to take place on a large scale. It would mean a number of very complicated arbitrations, and the position would be intolerable to the Government and companies alike."

This memorandum was submitted to Lord Kitchener, and Sir Herbert Walker had an interview with him on the subject. The Government at that time were very much concerned at the shortage of munitions, and Lord Kitchener asked the Railway Executive Committee to take steps at once to organise the manufacture of munitions of war by the railway companies to the fullest extent, but requested the Committee to supply him with a separate memorandum dealing with the financial questions arising out of the manufacture on a large scale of munitions of war by railway companies.

The railway companies at once decided to undertake the additional work, and for that purpose strengthened the War Manufactures Sub-Committee, which had been appointed as far back as November, 1914, and which under the chairmanship of the late Sir Guy Calthrop (afterwards Coal Controller) had supervised the manufacture of munitions by railway companies up to that date.

In accordance with the request made by Lord Kitchener, a further memorandum upon the financial questions involved was sent to him on the 20th May, 1915.

The memorandum dealt with the three questions, viz.:—

1. The charge to be made by the companies for munitions work.
2. The mode of payment.
3. The effect of such work upon the ordinary maintenance of the undertakings of the companies.

It emphasised the point that the companies desired no profit for themselves (a fact which enabled the Government to save large sums for the nation in the manufacture of shells and numerous other classes of munitions), but pointed out that the shareholders must be safeguarded as regards arrears of maintenance.

It is hardly necessary to point out that the manufacture of munitions was not work which the Government could have called upon the companies to carry out under any powers contained in the Act of 1871.

It may be interesting to mention that the sums paid to the railway companies for the manufacture of munitions, representing the cost price to them, amounted in the aggregate to over 17 million pounds. The direct saving to the nation thereby effected undoubtedly amounted to a very substantial percentage on that sum.

In addition to this the companies, at the instigation of the Railway Executive Committee, rendered very valuable assistance to the Government by sending permanent way, locomotives and wagons to France, and elsewhere abroad, services for which very generous tributes were paid to the companies and the Railway

Executive Committee both by the Commander-in-Chief and the present Minister of Transport.

It was suggested in paragraph 5 of Part (3) of the memorandum above mentioned that repairs and renewals which were due to be carried out, but which the companies had not been able to execute, should be charged at a uniform percentage above the amount expended in 1913, and that 12½ per cent. would be a fair addition to make to the 1913 figures for the period up to the 31st December, 1915, the percentage being left open to review as from the latter date.

The four most material paragraphs of this memorandum were as follows:—

"5. The Executive Committee, therefore, recommend that, as regards both renewals and repairs actually executed, either by the companies in their own shops or by contract, the work be charged in the ordinary way at current prices, and that arrears of work, that is to say, the renewals and repairs which are due to be carried out, but which the companies have not been able to execute, be charged at a uniform percentage above the amount expended in 1913. It is impossible to say what prices will prevail in the future, either as regards labour or materials, but it is suggested that 12½ per cent. would be a fair addition to make to 1913 figures for the period up to December 31st, 1915, the figure being left open to review as from the latter date."

"6. If this suggestion be adopted, it will be necessary to prescribe the mode of arriving at the amount of arrears, but it is thought that there would be no difficulty in doing this upon the basis of the amounts expended on or debited to renewals and repairs in 1913, and the control period respectively, after making allowance for the difference in prices in the two periods, that is to say, the amount by which the expenditure in 1914 or 1915 fell short of the amount spent upon similar items in 1913, after the necessary adjustment of figures due to enhanced prices, would represent the arrears or shortage of work in the control period. Allowance would also have to be made for any increase that a particular company might be able to show in the quantity of its rolling stock or in the wear and tear to which such stock had been subjected during the period of control.

"7. In considering what percentage addition to the figures of 1913 would be fair, it must be borne in mind, not only that both prices and wages have gone up very much since 1913, but also that in the case of repairs, even with prices remaining constant, the postponement of work beyond the date when it properly falls due in itself involves additional cost. For one thing, arrears have to be caught up and work done under pressure, involving overtime, and other extra payments, but more serious still is the fact that the plant itself falls into a condition necessitating more extensive repairs than would have been required if the work had been taken in hand in ordinary course; the case is an exemplification of the old adage that a stitch in time saves nine.

"8. These last considerations do not admit of any very accurate estimate, but there is no doubt that the money loss they represent is substantial, and, if the postponement were for a long period, would be very serious indeed."

The matter was discussed at a meeting at the Board of Trade on the 18th June, 1915, when the Treasury representatives who were present agreed generally to the suggestions contained in the memorandum quoted above, but required some further information to show how the figure of 12½ per cent. had been arrived at.

The memorandum, though not in terms limited to rolling stock, had been chiefly directed to the arrears under Abstract B. At the meeting on 18th June, 1915, the repairs and renewal of permanent way, etc. (Abstract A), were referred to, and it was understood that the two classes of work (Abstracts A and B) should be dealt with on the same lines.

Figures were supplied by the principal railway companies, in regard to Abstract B, of actual costs in June, 1915, compared with 1913. These were examined by Mr. Gurney Fowler on behalf of the Board of Trade, who stated in a letter to the Board of Trade, dated 20th July, 1915, that after examining figures from nine principal railway companies, he was "of the opinion that the 12½ per cent. asked for is justified as a fair charge up to the 31st December, 1915."

The approval of the Treasury was in the first instance (letter dated 26th August, 1915) limited to arrears of maintenance and renewal of rolling stock (Abstract B), but later the Treasury in their letter to the Board of Trade of the 23rd September, 1915, a copy of which was forwarded to the Railway Executive Committee on the 24th September, 1915, extended their approval to permanent way, signals, telegraphs, etc. (Abstract A.)

The advice to the companies of the arrangement made with the Government and instructions as to the formulæ to be used in stating the claims against the Government are set out in a printed document dated 25th January, 1916 (Yellow Book), issued to the companies with Circular Letter 483 of the same date. This document was approved by the Board of Trade letter dated 24th January, 1916, after it had been considered in detail by Mr. Gurney Fowler and Sir William Plender on behalf of the Board of Trade.

Stated shortly, the idea underlying these formulæ was that the companies should receive month by month the difference between—

- (a) their expenditure during each month of control on repairs and renewal of
 - (i) permanent way and works (Abstract A), and
 - (ii) rolling stock (Abstract B) (reduced to what it was estimated that the works executed would have cost at the prices current in 1913); and
- (b) their expenditure on, or debit in respect of, the same items in the corresponding period of 1913.

The amounts so ascertained, which were to be taken as representing the shortage or arrears of maintenance expressed in terms of pre-war cost, were to be increased by 12½ per cent. (subsequently raised to 15 per cent.), this percentage addition, as already stated, being intended to represent the then higher cost of wages and materials.

The difference between present and pre-war costs, for the purpose of reducing the cost of the works currently executed to their pre-war value, was to be separately arrived at for each company by ascertaining the cost of the more important materials and the rates of wages in 1913 and in each of the control periods and so calculating a fair general percentage increase.

It will be observed that the 12½ per cent. addition was only agreed up to the end of 1915. About that time the question of a supplementary agreement in regard to interest on capital expenditure and other matters had been raised, (ante p. 19) and in a memorandum submitted to the Railway Executive Committee on 1st December, 1915, dealing with these questions, it was pointed out that since the arrangement fixing the 12½ per cent. had been made, costs had advanced very materially.

In these circumstances it was suggested that a new figure should be agreed for 1916.

This memorandum, as previously mentioned, was handed to the Treasury on the 17th December, 1915, and at the meeting of 29th March, 1916, (ante p. 6) already referred to, the Treasury agreed that a higher percentage should be allowed in respect of the year 1916.

After an investigation into current costs, the Railway Executive Committee wrote to the Board of Trade on 23rd January, 1917, suggesting 33½ per cent. in place of 12½ per cent. in respect of arrears accruing in 1916.

After giving further consideration to the matter it occurred to the Railway Executive Committee that if the war were to continue for several years, and

costs were to continue to rise, the system of fixing a different percentage for the arrears of each year would be extremely unsatisfactory.

The objections to the system are summarised in a letter which is printed in the White Paper (page 46) dated 3rd April, 1917, from Sir Alexander Butterworth to Sir William Marwood.

Apart from practical difficulties that were likely to arise in working out the arrangement, the substance of the matter lay in this, that the relevant costs were really those obtaining at the time when the arrears of work came to be executed, and any arrangement that definitely fixed a percentage in advance was in the nature of a gamble. Assuming that costs went down after the war, the Government might very easily be paying unduly high sums, if their liability was calculated upon the costs current at the time when the arrears accrued. With our present experience 33½ per cent. sounds a very moderate addition to pre-war costs, but at the time it was looked upon as a very large one, and no one could foretell whether costs would be higher or lower when the work came to be carried out.

The matter had been discussed in a preliminary way at a meeting with the Government accountants, held with reference to other subjects, on the 13th March, 1917, and it was discussed at a meeting of the Executive Committee on March 20th, 1917. Later, Sir Thomas Heath intimated that the matter was one for the Board of Trade to deal with in the first instance and it was in consequence of this intimation that the letter, of the 3rd April, 1917, to Sir William Marwood was written, which was referred by the Board of Trade to Sir Albert Wyon.

Later in April, 1917, Sir Alexander Butterworth discussed the matter with Sir William Marwood, when he explained that the proposal of the companies was that the ultimate percentage should be agreed, or settled by some prompt and simple method of arbitration, within at latest twelve months after the termination of the Government control.

On the 3rd May, 1917, as appears from the letter printed on page 45 of the White Paper, the Board of Trade explained the whole situation to the Treasury, as a result of which, on the 19th June, 1917, a meeting was held with representatives of the Treasury and Board of Trade; at that meeting, after discussion, the proposals of the Railway Executive Committee were accepted in principle, leaving the exact amount of the payments on account to be settled later.

On the 3rd July, 1917, a letter from the Treasury (dated 26th June, 1917), was forwarded to the Railway Executive Committee by the Board of Trade, agreeing to payments on account being made at the rate of 115 per cent. of pre-war costs, and on the 30th August the Railway Executive Committee wrote accepting this figure.

The result of these negotiations was that all payments, including those made in respect of 1914 and 1915, were to be treated as payments on account, the payments from 1st January, 1916, to be calculated at 115 per cent. of pre-war costs and at the end of control, or within 12 months afterwards, the companies were to receive the difference (if any) between the sums so paid to them and the cost (actual or estimated) of carrying out the work, such difference, in the absence of agreement, to be settled by some simple form of arbitration.

For the purpose of simplification the 112½ per cent., which had been agreed for 1914 and 1915, was subsequently altered to 115 per cent.

As already explained, the above arrangements only applied to works falling under Abstracts A and B, and did not extend to such things as traffic, machinery, docks and dock plant, hotels, steamships, etc., though all such items fell within the same principle, which had received official recognition as far back as the preparation of the accountancy instructions in 1914.

The case of steamboats was specially discussed with the Treasury in December, 1915, and again in March, 1916, and it was agreed that the amounts due for arrears of maintenance of steamboats should be

settled at the conclusion of the period of control. The case of steamboats was rather special, because a great number of the railway steamers had been commandeered by the Admiralty, who were, of course, liable for their maintenance.

As regards items other than steamboats, the point was expressly raised in connection with the Supplementary Clauses in a letter from Sir Herbert Walker to the Board of Trade, dated the 27th October, 1916, and after some correspondence in which the Treasury intimated their readiness, if necessary, to consider the extension to other abstracts of the procedure already adopted in the case of Abstracts A and B, a letter was written by the Treasury to the Board of Trade on the 23rd January, 1917, and forwarded to the Railway Executive Committee on 30th January, 1917, in the following terms:—

“In reply to Mr. Moggridge's letter of 6th instant (R. 3655) I am directed by the Lords Commissioners of His Majesty's Treasury to request you to convey to the Board of Trade, for communication to the Railway Executive Committee, Their Lordships' assurance that they recognise that the railway companies will have a claim against His Majesty's Government at the end of the period of the war, or at the end of the period of control, in regard to arrears of maintenance in the case of works falling within the scope of the General Agreement and not included in any special arrangement now made or to be made for the payment of deferred maintenance.”

The decision to let all payments in respect of these arrears stand over until after the control was rather complained of by some of the companies whose docks formed a large part of their undertaking, but on the whole the arrangement came to was thought to be fair and satisfactory, though it is possible that it was less favourable to some companies than to others.

FINANCIAL AND ACCOUNTANCY WORK OF THE RAILWAY EXECUTIVE COMMITTEE.

The financial and accountancy work undertaken by the Railway Executive Committee divides itself under two main heads:—

- (1) Work undertaken on behalf of the railway companies;
- (2) Work undertaken on behalf of the Government; and this work was in the main performed by:—
 - (1) A Joint Committee of General Managers and Accountants, called at its inception the Special Committee, and afterwards the Compensation Accounts Sub-Committee.
 - (2) A Committee of Accountants.
 - (3) A Committee of Investigators.

The first half of the work, viz., that on behalf of the companies, can be dismissed here with a few words. It was undertaken, for the most part, either by specially appointed Committees or by the Joint Committee of General Managers and Accountants, and consisted mainly of negotiating with the Government on financial matters; it was strictly no part of the duties of the Railway Executive Committee as such, but as that Committee included the General Managers of most of the leading companies, it seemed at the time the most suitable body to undertake this work. It is with the other half of the work that the section is concerned.

The Executive Committee, either directly or through the Joint Committee or the Accountants' Committee, acted also as a medium of communication between the companies on the one hand and Government Departments and the Government accountants on the other in relation to financial questions, with the advantage of securing uniformity of action.

The Committee of Accountants acted as technical advisers of the Railway Executive Committee, and the investigators acted, under the direction of the Committee of Accountants, in advising the companies in the preparation of their accounts, and in examining claims made against the Government under the agreement.

Turning now to the origin, constitution and main functions of the three bodies to which, as above

stated, questions of finance and accountancy were mostly referred, these were shortly as follows:—

1.—*The Compensation Accounts Sub-Committee.*

This Committee (at first called the Special Committee) originally consisted of two general managers and five accountants, and was set up on the 10th September, 1914, "to tabulate suggestions for dealing with any points upon which it is considered "difficulty may arise in the preparation of the final "accounts to be submitted to the Government for "ascertaining the net deficiency payable to the "various companies by the Government under the "agreement." Alterations were made in the composition of the Committee from time to time, but it continued throughout to be a joint Committee of general managers and accountants.

With the exception of one matter, viz., the consideration of compensation claims, which will be referred to at length later, the Committee merely dealt with matters expressly referred to it; but as a rule such accountancy and financial matters as were thought to involve questions outside the scope of the functions of the Accountants' Committee were referred to it, and it generally fell to them to discuss with the Treasury and the Government Auditors any difficult points arising in connection with accounts. Thus it represented the Railway Executive Committee at the meetings (referred to on pages 8 and 13) with the Board of Trade and Treasury on October 14th, 1914, and November 25th, 1914.

It also acted as a liaison body between the Accountants' Committee and the Railway Executive Committee.

As an illustration of the sort of assistance which through the medium of this Committee the Railway Executive Committee endeavoured to render to the Government, reference may be made to the action taken by it in connection with the question of excess expenditure referred to on page 8.

In the early months of 1916 it was brought to the notice of the Railway Executive Committee that the expenditure of many companies in 1915 upon maintenance of way and works and rolling stock considerably exceeded the corresponding expenditure in 1913.

In consequence of this all companies, whose accounts for 1915 disclosed an increase in their expenditure on Abstract A or B (after adjustment for difference in costs) of more than 10 per cent. over the 1913 figures were invited to meet the Compensation Accounts Committee. Meetings were held with 26 companies, the company being in most cases represented by its general manager. Their attention was drawn to the Circular Letter of the Railway Executive Committee, dated 13th August, 1914, and it was pointed out to them that the Government would almost certainly call for an explanation of any expenditure substantially in excess of that of 1913.

The meetings brought to light a number of difficult and doubtful points, and in particular attention was drawn to the questions:

- (1) Whether it was necessary to continue the Government control of all the railways; and
- (2) What steps should be taken to ensure the repayment of any sums paid to or retained by companies in excess of the amounts ultimately found to be due to them.

As to the latter question, the Committee recommended that all companies should be asked to give an undertaking to refund with interest any amounts which might be found to have been overpaid to them, and to deposit security where a satisfactory undertaking was not forthcoming, a recommendation which, as explained above, was partially embodied in the Supplementary Clauses.

The Compensation Accounts Committee made a report of the meetings to the Railway Executive Committee, in which they stated that they believed that in the case of the companies not closely in touch with the work of the Executive Committee the meetings had not been without use, and that in every case where explanations or details were asked for they had been readily supplied to the Committee.

There was nothing in the agreement of 1914 limiting the amount to be expended or the work to be done by a company to what was spent or carried out by it in 1913, and the Railway Executive Committee would have assumed a serious responsibility if they had prevented any company from carrying out repairs which that company considered necessary for the safe or efficient conduct of its traffic. But they thought it their duty to play the rôle of "watch-dogs" to the best of their ability, and they made it abundantly clear that any company which was considered to be over-stepping the line of what was fair would find no support from the Railway Executive Committee. They had no power to bite, but they could at any rate bark.

2.—*The Accountants' Sub-Committee*

was set up, as already mentioned, on 9th August, 1914. Its original functions were to report:

- (1) "What arrangements will have to be made "and what instructions will have to be "issued to the various companies in order "that a uniform system shall be adopted in "arriving at the net receipts for a given "period in 1913, and of the expenditure "and revenue of each company during the "time the railways are taken over by the "Government."
- (2) "What steps can be taken to enable the "Executive Committee to be kept advised "periodically of the comparative expenditure that is being incurred during the "time the railways are taken over by the "Government."

This Committee at first consisted of the accountants of six companies, but on the 14th August, 1914, it was enlarged to include the accountants of all the companies represented on the Railway Executive Committee.

The Accountants' Committee acted really in three capacities: (1) in advising the Railway Executive Committee on matters of accounts and preparing statements and estimates, etc. for them; (2) in assisting the Government, first in the preparation of instructions to the railway companies as to the way of making up their accounts, and secondly in examining the accounts and claims of the various companies, and, as part of this latter branch of their work, in instructing and supervising the work of the Investigators; and (3) in distributing the money received from the Government between the separate companies, in fact, acting as a clearing house in connection with the money settlements under the compensation and subsidiary agreements.

In carrying out (2) and (3) the Accountants' Committee is to be looked upon as a branch or Sub-Committee of the Railway Executive Committee. Their Minutes were submitted to the Railway Executive Committee for confirmation; the letters and instructions which they prepared were sent out under the signature of either the Secretary or the Acting Chairman of the Railway Executive Committee, and 16, Great George Street, where they held their meetings and where their Secretary and clerical staff had their offices, came to be regarded as the Accountancy Headquarters of the Railway Executive Committee, just as 35, Parliament Street, was the Committee's headquarters proper.

3.—*Investigation Sub-Committee.*

The Investigators came into existence in March, 1915; they never actually sat or acted as a Committee, and it will be convenient to deal with the history of their organisation in connection with the detailed account of the special work undertaken by them.

As already explained, the main duties undertaken by the Accountants' Committee on behalf of the Government were (a) the preparation of instructions for the guidance of the railway companies; (b) the supervision of the compensation accounts of the companies; and it will be convenient to deal with the remainder of this Section, including the origin and functions of the Investigators, under these two headings.

A.—THE PREPARATION OF INSTRUCTIONS.

The first step was to lay down the lines upon which the accounts of the companies should be made up for the purpose of presenting their claims against the Government.

Memoranda on this subject were prepared (1) by the railway accountants on behalf of the Railway Executive Committee (being the memorandum already referred to in connection with arrears of maintenance) and (2) by Sir William Plender on behalf of the Government, and these were discussed at the meeting at the Board of Trade on the 14th October, 1914, which, as already mentioned (*ante*, p. 8), Sir William Marwood, with Sir William Plender and representatives of the Treasury, attended on behalf of the Government, whilst the Railway Executive Committee were represented by members of the Joint Committee already referred to.

These two memoranda formed the basis of the instructions which early in 1915 were sent to all controlled companies, setting out the methods to be adopted in making up the "compensation claims," as they came to be called, showing, in the case of each company, how each period compared with the corresponding period of 1913, and the estimated deficit which the Government were liable to make good.

The actual sequence of events in this connection was as follows:—

After the meeting on October 14th, 1914, the railway accountants drafted a set of regulations based on the memoranda which had been discussed at that meeting and the decisions then arrived at. Meanwhile the Treasury officials were also trying their hands at a draft.

These drafts were discussed at a further meeting on 25th November, 1914, at which the same parties were represented, when draft regulations were agreed. As a result of that meeting the regulations or

instructions so agreed were provisionally issued by the Railway Executive Committee on 13th January, 1915, with a Circular Letter explaining the functions of the Investigators; but the instructions were not issued in final form until the Government had formally signified their approval.

This was not until March, 1915, when the instructions were sent out by the Railway Executive Committee in book form (Blue Book), under the title, "Memorandum of Instructions to Railway Companies for the Preparation of the Accounts to be presented by each Controlled Company to arrive at the amount of compensation payable by His Majesty's Government."

The instructions were accompanied by Circular Letter No. 214, dated 1st March, 1915, which stated in terms that the instructions were "as finally approved by His Majesty's Government," and ended "You will now be in a position to complete the final account in respect of the period 5th August—31st December."

These instructions set out the original agreement of August and the agreed definition of Net Receipts; embodied a number of the emergency instructions which had been issued in August, 1914; contained detailed regulations as to the inclusion and apportionment of various items of receipts and expenditure, as to provisions for reserves, etc., and laid it down that the net receipts of each company for the year 1913 must be taken to be those appearing in the published accounts of that year.

The respective methods adopted in 1913 by the various companies were to regulate the accounts of each company during the period of control.

The following is a brief summary of the principal sets of accountancy regulations or instructions issued before the passing of the Ministry of Transport Act, 1919:—

B. E. C. Circular Letter No.	Date	—	—
214	4/3/15	Blue Book ...	Memorandum of Instructions to Railway Companies for the preparation of the Accounts to be presented by each Controlled Company to arrive at the amount of Compensation payable by His Majesty's Government.
483	25/1/16	Yellow Book ...	Arrears of Maintenance and Renewal Work, Abstracts "A" and "B" for the period 5th August, 1914, to 31st December, 1915.
536	3/4/16	Heliotrope Book	Example of Application of Instructions in the Yellow Book; and Instructions as to the method of arriving at the allowance of Increased Rates of Wages and prices of materials.
729	14/11/16	Pink Book ...	Supplementary Clauses to Agreement with His Majesty's Government; and Regulations in regard to the compilation of claims for Interest on Capital Expenditure.
1400	12/6/18	Green Book ...	Arrears of Maintenance and Renewal Work Abstracts "A" and "B" for the year 1916.
1650	13/12/18	Brown Book ...	Arrears of Maintenance and Renewal Work Abstracts "A" and "B" for the year 1917 and onwards.

In addition to the printed books of instructions, the Accountants Committee found it necessary from time to time to advise the controlled companies on detail matters of accounts and many circular letters dealing with such matters were issued by the Railway Executive Committee on the recommendation of the Accountant's Committee.

The scope of these may be generally described as follows:—

1. Circular letters dealing with preparation and form of monthly estimates of revenue receipts and expenditure, and arrears of maintenance.
2. Circular letters dealing with the accounting side of questions previously settled by the Railway Executive Committee with the Government Departments, *e.g.*, expenses of requisitioned steamboats, war bonus, Government traffic, form of published accounts, procedure in regard to accounts for war manufactures, etc.

3. Circular letters dealing with cessation of inter-company charges and divisions of traffic, non-controlled companies' proportions, and other matters, which may be regarded as arising automatically from Government control.

How far the instructions issued by the Railway Executive Committee on matters of accountancy were or are binding upon companies which did not agree to act upon them was occasionally discussed, but has never been decided. It may be taken that they have been generally worked to, but if and so far as they went beyond what might be fairly regarded as implied in the main agreement, there seems to be nothing that made or makes them binding upon a dissentient company, though it is doubtful whether this was generally realised, especially by the smaller companies. It was obvious that an agreement concluded in such general language as that of August, 1914, would admit of considerable variations in details as regards the exact mode of carrying it out, and it

was desirable from all points of view to avoid constant doubts and disputes and to secure uniformity of action as far as possible.

Two courses were open. One would have been to endeavour to draft an agreement in sufficient detail to cover all possible or probable contingencies, and then negotiate the terms with each of the 80 or so controlled companies in Great Britain, with the almost certain result that the war would have ended before any agreement was arrived at with many of the companies. The other was the course actually adopted—to draft fair regulations covering the most important of the points likely to rise; supplement these as and when it became necessary; issue the regulations, and assume that they would meet with general acceptance.

If the Railway Executive Committee in such matters occasionally assumed an authority for which they might have found it difficult to give chapter and verse, this was undoubtedly to the public interest; what they felt, mainly concerned with was that the agreement should be carried out in a fair spirit and upon reasonable and practical lines, and that they should render all the assistance in their power to the Government.

The rule, as already mentioned, was, in all matters of principle, to obtain the approval of the Government Accountants and the Government Department concerned (Board of Trade and/or Treasury) to the instructions before they were issued, so that at any rate the Government could not suffer by the procedure adopted. Indeed, the procedure from the first was adopted with the acquiescence—if not at the express request—of the Board of Trade, who looked to the Railway Executive Committee and the Accountants of the railway companies for a much larger degree of assistance in accountancy matters than the General Managers had anticipated, or, so far as appears, than the Government had any legal right to require.

B.—THE SUPERVISION OF COMPENSATION ACCOUNTS OF THE COMPANIES.

Sir William Plender seems to have assumed that the railway companies would take some steps to secure that the different companies would make up their accounts upon a correct and uniform basis, for in his memorandum of 29th September, 1914, he said:—

“The Board of Trade, whilst reserving to itself the right of nominating any independent person or persons to examine on their behalf the accounts submitted, should be advised of the steps, if any, which the railway companies, on their own initiative, propose to take to prevent any possible misunderstanding of the regulations governing the preparation of the accounts which are to be embodied in the proposed memorandum, as by constituting a body of railway expert accountants selected mainly from the Railway Clearing House, who would, by personal examination of accounts and conference with officials, see that as far as possible uniformity in treatment is established, and that no departure from the instructions takes place.”

On the 8th December, 1914, a suggestion was made that a small committee should be formed to “scrutinise the accounts which will be presented by the various railway companies to form the basis of the compensation payable by the Government,” and the task was remitted to the Joint Committee already referred to, which later came to be known as the Compensation Accounts Committee.

At a meeting of this Committee, held on 14th December, 1914, it was recommended that a Sub-Committee of Investigators should be set up, consisting of two representatives from the accountant's office of each of the companies represented on the Executive Committee.

It was thought that in the first instance two members of such Sub-Committee should visit the accountants of each of the “non-executive” companies, in order to satisfy themselves that the Memorandum of Instructions was clearly understood, and that later the members of the Sub-Committee should conduct

an investigation of each company's accounts in order to ascertain that the instructions had been given effect to.

The matter was next brought before the Executive Committee in order to obtain their approval to the formation of the Sub-Committee suggested, and finally was considered by a meeting of general managers of all the controlled companies, held at the Railway Clearing House on the 18th December, 1914, when it was resolved:—

“That this Conference of the General Managers of the companies, the control of whose lines has been taken over by the Government under the Act of 1871, assents to the principle of an audit of the accounts to be rendered on behalf of the ‘controlled’ companies to the Government, by a Committee to be appointed from the staffs of the accountants and audit offices of the companies represented on the Accountants' Committee of the Executive Committee, and agrees to afford every facility for such audit.”

Following the decision of the general managers recorded above, the Compensation Accounts Committee met the proposed Committee of Investigation at the Railway Clearing House on the 6th January, 1915.

At that meeting the minutes of the general managers' conference referred to above were read, and it was pointed out that the proposed arrangements would be to the mutual advantage of all the companies, since, by enabling the Railway Executive Committee to give the Government an assurance that the approved instructions had been fully understood by all companies and that the claims for compensation had been prepared on the lines there laid down, the final settlement would be greatly facilitated.

On the recommendation of the same Committee, held on the 12th January, 1915, it was decided that the memorandum of instructions (Blue Book), which was on the point of being issued to the companies, should be accompanied by a circular letter, explaining the steps which were being taken. The following is an extract from the letter, which was sent out on the 13th January, 1915:—

“With reference to the meeting of general managers of controlled companies, held at the Railway Clearing House on the 18th December last, when assent was given to the proposal to constitute a Committee of Investigation, consisting of representatives of the accountants of the companies represented on the Executive Committee, in connection with the claim for compensation to be rendered against the Government in respect of period of Government control; as indicated at that meeting, the duties of the Committee will, in the first instance, be of an advisory character in connection with the Memorandum of Instructions which, at the instance of the Government, is to be issued in regard to the accounting arrangements during the period of Government control.”

“I have also to advise you that at an early mutually convenient date two representatives of the [] Company will call upon your accountant for the purpose of giving any explanations that may be necessary, to ensure a complete understanding as to the intention and effect of the various instructions.”

On 3rd March, 1915, instructions outlining the duties of the Investigators were drawn up by the Accountants' Committee, and a rota was prepared of visits to be made by the Committee of Investigation for the purpose of examining the accounts of all the controlled companies for the period 5th August to 31st December, 1914.

These instructions provided:—

“General.

“To ascertain whether the provisions of the Memorandum of Instructions have been strictly complied with and to report any departures

"therefrom. Any questions of principle that may be raised to be enquired into and reported upon.

"Basis of Compensation.

"Particular attention to be given to Clauses (6) and (7) of the Memorandum.

"With regard to Clause (8), the Investigator to report in every case the method employed in arriving at the total traffic receipts for the period 5th to 31st August, 1913, and to state whether he is or is not satisfied with such method, giving reasons therefor.

"Receipts and Expenditure, Control Period, 1914.

"The Investigator is not expected to examine vouchers or to test the accuracy of the figures produced, except in cases where such figures are the result of the application of a regulation contained in the Memorandum of Instructions in regard to any specified item of receipts and expenditure, such as parcel post receipts, renewals of permanent way and rolling stock, etc., etc.

"Net Receipts, half-years to 30th June, 1913 and 1914.

"In accordance with Clause (10) of the Memorandum, the Investigator to satisfy himself that the net receipts of the two half-years have been prepared on the same basis.

"The Investigator should, on completion of his examination, obtain a copy of the final account, certified as such by the accountant of the company concerned, and send it in with his report."

The procedure of Investigation of Compensation Claims, was subsequently applied to the claims in respect of arrears of maintenance and interest on capital.

Subsequently to the issue of the foregoing instructions to the investigators, the Accountants' Committee prepared sets of questions (prints of which can be produced, if desired) for the investigators to answer when they were reporting the results of their investigation of the various companies' accounts, these questions being directed to those points in the instructions which needed to be most carefully watched.

The procedure and functions of the bodies set up, as already described, for the purpose of examining the claims against the Government, are briefly summarised below:—

1. A company's claim is first of all reported upon by the two investigators, after examination on the spot, whose report is forwarded to the Accountants' Committee.
2. If the investigators' report and the claim raise no doubtful points, they are despatched by the Accountants' Committee to the Government Accountant. If, however, any further information is required, the committee communicate with the company and/or the investigators, and if they are able to clear up the matter, the claim is forwarded to the Government Accountant with a note of the action taken by the Committee.
3. If no settlement is reached on a disputed claim, the point at issue is referred to the Compensation Accounts Committee, unless the same point has been previously dealt with by that committee, in which event the report and claim are sent on to the Government Accountant with a reference to the previous report of the Compensation Accounts Committee on the same point.
4. The Compensation Accounts Committee in dealing with disputed claims, after hearing the views of a company whose claim is not passed by the Accountants' Committee, report to the Executive Committee whether they agree with the accountants, setting out in their report the contentions of the company, and, if necessary, the reasons why they do not accept these. The following are the

stages preliminary to making their report:—

(a) Informal meeting of committee to consider accountants' conclusions.

(b) Letter from committee to company concerned suggesting a meeting to enable the company to lay its contentions before the committee.

(c) Meeting with company.

(d) Letter to company, stating (if such be the case) that the Committee are unable to recommend any variation from the opinion of the accountants, and asking for a written statement of the company's contentions.

(e) Report to the Railway Executive Committee containing:—

(i) Accountants' opinion.

(ii) Company's contention.

(iii) The Committee's conclusion.

(iv) Recommendation that the report be forwarded to the Government accountant.

5. Consideration by the Railway Executive Committee of the report of the Compensation Accounts Committee and dispatch of same to the Government accountant.

The consideration of claims both by the accountants and the Compensation Accounts Committee is limited to the question whether the claim is in accordance with the issued regulations or instructions, and it is not regarded as any part of the function of either body to deal with the merits of the claim apart from such regulations or instructions, the view of the Railway Executive Committee being that such questions should be left to the Government accountants or other representatives of the Government. The most that has been done is in exceptional cases to draw the attention of the Government accountants to any special features in a claim, where it has seemed to the Committee that a literal carrying out of the instructions might involve hardship or anomaly.

It will be readily understood that the members of the Railway Executive Committee undertook these duties with a certain degree of reluctance, not because it was adding a load to what in any case promised to be a heavy enough burden—both of work and responsibility—but because they saw that they might be placed in a position where their duty to their companies and their self-imposed duty to the Government would clash, or seem to clash, or that at any rate they might be called upon to take action in matters where the interests of their company and those of the Government were not identical.

However, they felt it to be their duty to render to the Government whatever assistance it was in their power to render, and so far from the interests of the country having suffered from their participation in the financial questions that arose out of the Government control of railways, as suggested in certain quarters, they believe that the work done by the Railway Executive Committee and the Accountants' Committee in these matters was of very great value to the Government and saved the country a very large sum of money.

After the passing of the Ministry of Transport Act, and when it had been announced by the Minister that he had set up a staff to check and audit the claims of the companies against the Government, it was rather assumed that the accountants would be allowed to return to their normal duties and be spared the very onerous work which, at the request of the Railway Executive Committee, they had voluntarily undertaken in order to assist the Government in the stress of war.

But the Minister of Transport requested that the accountants should continue to act, at any rate until his own staff were more conversant with their duties, but that the staff of the Ministry should be given an opportunity of attending the proceedings of the accountants and investigators.

In assenting to this request the Council of the Railway Companies Association said that while in view of the importance which the Ministry attached to their representatives being associated with the accountants of the companies at the meetings at which

the compensation claims were discussed and at the investigation of the accounts, they were prepared to recommend the companies concerned to fall in with this procedure, they shared the doubts already expressed to the Ministry as to whether the altered procedure would tend to increased efficiency, as they feared it might create a sense of divided responsibility.

In consequence of the request of the Minister of Transport, the Committee of Accountants have continued to act substantially as they did during the war, their number (14) being made to correspond with that of the Standing Committee of General Managers.

Before leaving this part of the subject reference should be made to the steps taken by the Treasury and the Board of Trade at the outset of the war to insure accuracy and honesty on the part of the controlled railway companies in making up their accounts, apart from the assistance they sought and obtained from the technical staff of the companies themselves.

In Sir William Plender's memorandum of 29th September, 1914, he recommended that:

"The Accounts as submitted to the Board of Trade should have a certificate attached signed by the chief accountant, the auditors and the professional accountants of each railway company, somewhat on the following lines:—

"We have examined the accounts attached with the books and vouchers of the company, and we certify to their correctness and that they have been prepared strictly in accordance with the agreement entered into with His Majesty's Government and with the Memorandum dated....., 1914, issued by the Committee of Chief Accountants."

At the meeting at the Board of Trade on the 25th November, 1914, this suggestion of Sir William Plender was adopted, the only modification made being that instead of the certificate having to be signed by the chief accountant, the auditors and the professional accountants of each railway company, the certificate was to be signed by the chief accountant and the auditors or the professional accountants of each railway company, the reason for this alteration being that the practice as to the audit of accounts varies on different railways; some companies have professional accountants as their auditors, others have non-professional auditors who are assisted by professional accountants.

The above form of certificate and the signatures to be appended were amended in accordance with the requirements of the Treasury, as stated in their letter to the Board of Trade of 1st January, 1915, as follows:—

"We have examined the accounts attached and compared them with the books and vouchers of the company. We certify that they are correct and that they have been prepared strictly in accordance with the Memorandum dated 1915 issued by the Committee of Chief Accountants with the approval of His Majesty's Government."

This decision was circulated to the Companies on the 13th January, 1915.

Early in 1915 Mr. Gurney Fowler raised a question with regard to the absence of comparative figures in the proposed form of accounts, and in the course of a letter on the subject, he referred to the form of certificate, which had been settled by the Treasury as above mentioned, as "a very stringent printed certificate."

To meet the point raised by Mr. Fowler it was arranged that each company should render a comparative statement showing the revenue receipts and expenditure for the half-years ended 31st December, 1913-1914, in the same detail as is required by the Statutory Form of Accounts, and the increase or decrease of each item, and Mr. Fowler expressed himself as satisfied with the arrangements made.

The acceptance of the agreed form of certificate as an adequate safeguard for the Government is referred to in the following extract from a letter,

dated 1st June, 1915, from the Board of Trade to the Railway Executive Committee, in reply to an enquiry from the latter as to the position of Sir William Plender and Mr. Gurney Fowler in relation to the audit of the accounts of the railway companies, which sets out very fully the position as regards accountancy safeguards as viewed by the Board of Trade:—

"The Board of Trade, in consultation with the Treasury, considered the question as to the scope of the examination to which the accounts of the companies should be subjected on behalf of the Government; and, seeing that the accounts of all companies are at present subject to an audit which is entirely independent of the management of the companies, they were of opinion that payments can properly be made, upon certificates by these independent auditors, subject to a general scrutiny of the character hereinafter referred to.

"It was proposed that, in the first place, the companies themselves should prepare drafts of certain instructions and schedules, that these drafts should be submitted to the Board of Trade, and that, when finally settled, they should be issued through the companies to their accountants, who would prepare the accounts on the lines thus laid down. This procedure was, as you know, followed, and the instructions have, it is understood, been issued to all the companies whose undertakings were taken over under the Act."

"It is further proposed that the accounts will in due course be audited by the professional auditors of the companies, and will ultimately be submitted to the Board of Trade with a view to the final payment of compensation when the control period has come to an end. Before being finally passed for payment, the certified claims will be referred to a consulting accountant whose duty it will be to satisfy himself that the principles laid down in the instructions have been followed, and he will also consider more particularly the methods adopted in regard to such matters as depreciation and the allocation of charges between revenue and capital account. The consulting accountant would rely in the main on the certificates of the professional auditors of the companies, and conduct detailed investigations only if and when questions arise in the course of examination which appear to make such investigations necessary, and he would also be generally responsible for seeing that the claims are in order."

Reference may also be made to the letters which passed between the accountants' committee and the Government accountants at the end of 1915 when the accounts of a number of the companies for the five months of 1914 had been considered by the latter. The chairman of the Committee (Mr. Whitelaw) wrote to each of them (Sir William Plender and Mr. Gurney Fowler) asking whether there were any points of general principle in regard to the manner in which the accounts had been compiled which they desired to raise. He reminded them that before very long the companies would have to take steps to prepare their accounts for the year 1915, and said that for this reason it would be a great convenience if the Committee had before them in good time particulars of any such questions. In reply each of the Government accountants stated that they knew of no such questions apart from certain matters that had been discussed at a recent interview.

Dealing now with the matters referred to in the notes handed to Sir Herbert Walker and Sir A. Kaye Butterworth on the 15th December, so far as they are not covered by what has been already said:—

(1) THE RAILWAY VIEW ON THE CONNECTION BETWEEN THE ORIGINAL AGREEMENT AND THE ACT OF 1871.

The agreement must be regarded as a working arrangement intended to meet one main difficulty inherent in the situation created by the Government "taking possession" of practically all the railways in Great Britain under the Act of 1871.

That Act (or rather S. 16 of it) is extraordinarily general and vague in its language—so much so that widely different views were and are still held as to the meaning, or at any rate the legal results, of this “taking possession,” some people attributing to it apparently very little effect beyond what might be achieved by the exercise of the powers conferred by the Act of 1888, and others regarding it as equivalent to something little, if at all, more than temporary nationalisation, while between these two extreme theories there seem to be a variety of intermediate views.

The difficulty of interpreting the Act came out very clearly at the outset of the negotiations in August, 1914, when the Railway Executive Committee were inclined to take the view that one result of the Government’s “possession” would be that all railway receipts became automatically the property of the Government, and were told by the Board of Trade that this was not the view of the Law Officers of the Crown.

But apart from the difficulties of interpretation the situation itself was full of difficulty. No one knew what the result of the war would be upon railway travel and railway transport, but whatever happened the railways would have to be kept in funds to meet current expenses, which could not be immediately reduced without adding seriously to the unemployment that many people looked for.

But perhaps from the point of view of the Board of Trade, with their special responsibilities in connection with the control (to use the word which very soon superseded the statutory term “possession”), the most embarrassing factor was the liability imposed on the Government by the Act of 1871 to pay “full compensation” to the companies affected.

It is clear from the records of what passed before and at the very commencement of the war that the Government were very much impressed and, indeed, embarrassed by the fact that under the Act of 1871 each railway had to be treated as a separate organisation, with its independent right to compensation, and if, as might easily happen, one railway were to gain from the war through a large flow of military and naval traffic, while another lost (lost, that is to say, not merely as a result of war, but as a result of Government control), the Act provided no means of setting off the gain against the loss. The railway companies as a whole might be no worse off, and yet the State might have to pay large sums for compensation.

Of course, there were large operating advantages to be derived from a pool, because it would enable those in control of the railways to disregard all financial considerations in connection with routing and conveyance of traffic, and in time of war efficiency of operation must be the paramount consideration: but the point above referred to undoubtedly weighed with the Government in making the particular form of agreement which they did.

To sum up, therefore, the agreement was, in the first place, a working arrangement, which should—

- (1) enable the railways to “carry on” financially without embarrassment, for they would meet current outgoing out of current receipts, plus such instalments of “compensation” as might be found necessary, and
- (2) enable those in control of the railways to devote their thoughts and energies entirely to questions of efficient operation.

But the agreement merely dealt, and could only have been intended to deal, with one aspect of compensation. It may even be said that it made a use of the “compensation clause” which could hardly have been contemplated by the framers of the Act, for by the agreement, as eventually construed and acted upon, the so-called “compensation” became the price which the Government paid for the conveyance of its war traffic, while from a legal point of view compensation for loss sustained by the exercise of statutory powers and payment for services rendered are essentially different things.

However that may be, the agreement dealt only with what may be termed the day-to-day side of the “compensation” question—one may call it the “revenue” side of the question as distinguished

from the “capital” side. It made no attempt to deal with the contingency which necessarily lay behind, viz., the extent to which at the end of Government “possession” or “control” it might be found that, apart from any question of dividends or net revenue during the period of such possession or control, any company or companies had suffered loss through the exercise by the Government of its statutory powers.

No doubt at the outset everyone’s mind was directed to other objects—no one realised at first that the Government control was to be a matter of years and not months, but it is believed to have always been the view of the railway companies and their advisers that an overriding term of the arrangement, implied from the outset (or perhaps it would be more correct to say a fundamental principle of the Act, unaffected by the special agreement as to revenue or interim compensation), was that the undertakings of the railway companies must be returned by the Government to the proprietors unimpaired, either physically or as revenue-earning undertakings.

The fact that the payments by the Government would cease with the “possession” in itself demonstrates that the agreement provides no compensation for loss or injury (attributable to the exercise of the powers of the Secretary of State) existing at the end of State possession and enduring thereafter, and this view of the arrangement is supported by the history of the agreement and supplementary arrangements as well as by the provisions of the Ministry of Transport Act and the statement of the Home Secretary in the House of Commons on 2nd July, 1919.

That statement was made in the following circumstances:—

Major Barnes moved an amendment (*see* Hansard, Vol. 117, No. 86, page 631) designed to limit any compensation payable to that provided for by the agreement or arrangement of August, 1914. In stating that the Government were not prepared to accept the amendment, Mr. Shortt (Home Secretary) said:—

“I agree that railways which are taken under the Act of 1871 are to have full compensation. We know that there was an agreement entered into at the beginning of the war, but it has been perfectly clear that, owing to circumstances which have since arisen, the railway companies would not be getting, under that agreement, the full compensation to which they were entitled under the Act.”

From this it is clear that, in the view of the Government on 2nd July, 1919, the agreement of August, 1914, was not exhaustive of the question of compensation.

(2) RAILWAY EXECUTIVE COMMITTEE: CONSTITUTION, POWERS AND FUNCTIONS, VIS-A-VIS GOVERNMENT, VIS-A-VIS RAILWAY COMPANIES.

The constitution of the Railway Executive Committee and the circumstances leading up to its formation have already been explained.

As regards its functions, it is impossible to speak with anything approaching accurate definition; for the simple reason that no attempt whatever was made at any time to lay down their limits, or even their character.

To a great extent they acted as a *liaison* body between the Government on the one hand and their own boards of directors and the boards of other railway companies on the other, and no clear line was drawn between their functions or actions in that capacity and their duties as executive agents of the Government.

In early days it was said that the principal duties of the Committee on mobilization would be “to co-ordinate the railway transport requirements in connection with the mobilization of the naval and military forces, concentrations of the latter, the transit of war material, and the maintenance of the food supplies of the civil population; to so apportion the traffic as to secure the best results, to agree programmes with the view of avoiding any clashing of interests, and to refer to the President of the Board of Trade if they are unable to do this.”

But that assuredly gives a very imperfect description of the work undertaken at 35, Parliament Street, the headquarters of the Railway Executive Committee, and the place where in the early weeks of the war the Committee met three and four times a day, apart from the almost continuous sittings of various sub-committees.

Primarily the Railway Executive Committee is to be regarded as the expert body to whom the Government entrusted the practical carrying on of the railways of which it had taken possession under statutory powers, and seeing that nearly all the large railways in England and one of the Scotch railway companies were represented on the Committee, the arrangement had the advantage of involving the minimum disturbance of the existing regime.

But the functions and authority of the Committee as a matter of strict definition must, it would seem, turn largely on the view taken as to the effect of the "possession" of the railways by the Government. If the Government were in "possession" in the fullest sense of the term, there would be little or nothing left for the general managers who formed the Railway Executive Committee to do *vis à vis* the public or other companies, or indeed as regards their own railways, except as the representatives and agents of the Government. If, on the other hand, the Government's "possession" were a much more limited matter, there would presumably be a remnant of power left in the respective boards of directors and general managers of the various companies, including those represented on the Committee.

In either case, the only power which the Railway Executive Committee had over other companies was necessarily as the agents of the Government; except in that capacity all they could do was to advise.

It is believed that the wider view of the "possession" was, broadly speaking, the view generally acted upon, and that in issuing circular letters to the various railway companies the Committee looked upon themselves as announcing the directions of the Government. In point of fact, not only was Sir Herbert Walker, who was Acting Chairman of the Committee throughout the war, almost daily, and other members of the Committee very frequently, in personal touch with the War Office and Board of Trade, but the more important circular letters were either submitted to the Board of Trade before being issued, or embodied instructions which the Board of Trade had already notified or authorised.

It is only right, however, to say that the Committee were much more concerned with "carrying on" efficiently than with any technical questions of authority. They were convinced that the more the railway companies were allowed to run their own business, the better for the nation; therefore, as regards those railways which were not represented on the Committee, they interfered with their management as little as was consistent with securing, first, the best possible train services for all important traffics, and secondly, uniformity of action in all matters where such uniformity was necessary or desirable, and such directions as they found it necessary to issue met with very unquestioning acquiescence on the part of all concerned. As regards their own railways, which carried more than three-quarters of the entire traffic, from first to last there was a very near approach to unanimity among the members of the Committee as regards all important questions. In these circumstances, the Committee did not feel it incumbent upon them to be always raising questions of authority, and they believe that their action (or absence of action) in this respect was justified by the result.

The foregoing remarks have no application to the functions of the Railway Executive Committee *vis à vis* the Government and, therefore, as regards finance.

From the first (again, without much, if any, enquiry as to the source of their authority) the members of the Railway Executive Committee undertook the negotiation of financial terms with the Government on behalf of the railway companies

generally, and in all such negotiations they acted entirely as the representatives, accredited or not as the case may be, of the companies, and not in any sense as the representatives of the Government.

Of course the Railway Executive Committee had no authority to conclude bargains on behalf of any company (in many cases no authority to negotiate), and when their negotiations with the representatives of the Government were concluded the results had to be submitted for confirmation to the boards of the various companies. As a rule, but not always, such confirmation was forthcoming, and the terms then became operative between the Government and the individual companies.

This must not be understood to imply that, when bargaining with the Government on financial matters, the general managers felt justified in extracting the most onerous terms they could from those who in these matters represented the Government, or had any desire to do so.

Far from it; throughout, though they did not always get their way, they did their utmost to be fair and to see both sides of the case, and while in all matters of bargaining they regarded their duties as being primarily towards their shareholders, they realised to the full that it was their duty to abstain from taking any advantage of the very special circumstances created by the national emergency.

It is believed that throughout the representatives of the Government appreciated the position, *viz.*, that while the general managers concerned felt it their duty to obtain fair terms for their shareholders, they did not wish to obtain any advantage for them that was unfair to the State, and there can be little doubt that the recognition of this by the Government representatives greatly facilitated the negotiation of arrangements fair to both sides, whereas, had a different spirit pervaded the negotiations on either side, agreement might have proved almost unattainable.

But bargains with the Government formed only one side of the financial work undertaken by the Railway Executive Committee, and in financial matters, from the very outset and throughout the war, the general managers who formed the Railway Executive Committee acted in a dual capacity (1) *against* the Government in bargaining ("against" only in the sense of representing the opposite side to the bargain in the manner just described) and (2) *for* the Government, in advising on matters of accountancy and supervising the accounts of the railway companies in the manner already described.

In this latter capacity they acted, in the main, as voluntary helpers of the Government, and in issuing instructions to the companies with reference to their accounts they no doubt purported to act as the representatives and with the authority of the Government, so far as any department of the Government had itself authority to issue such instructions.

To sum up, it may be said, broadly speaking, that—

(I.) In matters of *operation*, the Railway Executive Committee represented the Government and acted as agents of the Board of Trade, *vis à vis* both the public and the railway companies.

(II.) In matters of *bargaining*, *i.e.*, the financial arrangements between the Government on the one hand and the railway companies on the other, they represented the railway companies (all or some) for the purpose of negotiating, though not of concluding, bargains.

(III.) In other matters of *finance*, *i.e.*, the carrying out of the financial arrangements arrived at between the Government and the railway companies, they acted as helpers of the Government, without, it would seem, any obligation in the matter, beyond the obligation which lies upon every volunteer, *viz.*, to use all proper care and make the best use of such expert knowledge as he possesses.

Lastly (IV.) In matters relating to *wages and war bonus*, and conditions of service generally, where the Government did not (as in the grant of the 8 hours' day) deal with the matter directly, the Committee acted as the agents of the Government, with limited authority and generally under definite instructions.

(3) INVESTIGATION OF CLAIMS: CONSTITUTION, POWERS AND FUNCTIONS OF INVESTIGATORS, ACCOUNTANTS' SUB-COMMITTEE AND COMPENSATION ACCOUNTS COMMITTEE VIS-A-VIS GOVERNMENT AND COMPANIES.

These matters so far as they relate to constitution and function have already been fully dealt with.

As regards powers, for the reasons already indicated, it is impossible to say much. Beginning at the bottom, the investigators merely acted as the subordinates of the Accountants' Committee, from whom they took their instructions. They were in all cases members of the staff of the accountants who formed the Accountants' Committee. Their duty was to report to that Committee and they had no "powers" at all beyond what the railway companies themselves agreed in 1914 to give them, viz., the right to come and inspect their accounts and ask questions about them.

Next, the Accountants' Committee. They acted under the instructions and authority of the Railway Executive Committee, whose technical advisers they were. They, like the investigators, had no "powers," in the sense of being in a position to give orders or lay down authoritative interpretations of rights or obligations.

But indirectly, no doubt, they exercised considerable power, on account of their extensive and detailed knowledge of all matters connected with railway accounts. They were in close touch with the Government accountants, and no doubt it was of great advantage both to the Government and to the railway companies, especially in the early days, that such a good understanding existed between them and those gentlemen.

The scrutiny of the compensation claims by the Accountants' Committee was a very real scrutiny, and if the accountants reported adversely upon the claim of any company, that company had an exceedingly uphill task in getting their decision (or rather expression of opinion) reversed, though there were occasions on which a company fared better at the hands of the Government accountants or the Board of Trade than it did with the Accountants' Committee.

The Compensation Accounts Committee also had no "powers." It reported on the claims of companies where there had been a difference of opinion between a company and the Committee of Accountants, and on a variety of questions specifically referred to it. Also, sometimes it conducted negotiations; but the Committee, as such, had no power beyond that of expressing its views.

In a word, the "power" of the three bodies referred to, though in practice it may have been real, was indirect, and, speaking strictly, was non-existent.

(4) GOVERNMENT ACCOUNTANTS: RELATIONS WITH RAILWAY EXECUTIVE COMMITTEE; ACCOUNTANTS' SUB-COMMITTEE, &c. RAILWAY EXECUTIVE COMMITTEE'S VIEW AS TO AUTHORITY OF GOVERNMENT ACCOUNTANTS: AS TO AUTHORITY OF ACCOUNTING INSTRUCTIONS.

It has already been explained that the accounting instructions had strictly no authority as against any company that refused to comply with them.

How far any particular company may have been or may now be stopped from raising this contention is obviously not a matter upon which an opinion can be expressed.

But looking at the question quite strictly, it would seem that an instruction must either have accurately expressed the effect of the Agreement, in which case it may be called unnecessary, or it did not do so, in which case it involved an alteration of the Agreement which it was open to any company to refuse to accept.

Probably the converse would not be true. If an instruction gave something more than the agreement and was issued with the authority of the Government, it would hardly be open to the Government afterwards to repudiate it; similarly, in the case of an instruction originally issued without authority but afterwards acquiesced in or tacitly accepted by the Government or its representatives.

But in practice very few questions are believed to have arisen as to what are called the accounting instructions; it will be found that in substantially all cases these instructions were nothing more than fair interpretations or working regulations—that is, they stated what was impliedly contained in the arrangement or was to be reasonably inferred as expressing the intention of the parties.

As regards the Government accountants, the Railway Executive Committee and the Accountants' Committee regarded them as the representatives of the Government. They, of course, had no means of knowing the measure of their authority, but assumed that in matters beyond their authority the Government accountants would refer to the Government for instructions, and on a number of occasions this was in fact done.

With reference to the annual compensation claims of the companies, the Railway Executive Committee understood that these, when properly certified by the auditors and accountants of the respective companies, were in ordinary course to be referred to the Government accountants, as explained in Sir William Marwood's letter of 1st June, 1915.

The practice, therefore, was for the Accountants' Committee, when a claim appeared to them to be in order, to forward it to the Government accountant (that is, to Mr. Gurney Fowler and afterwards Sir Albert Wyon, unless their firm acted as auditors for the Company, in which case the claim was sent to Sir William Plender) and, so far as the Railway Executive Committee were aware, if the claim was passed by him, it was treated by the Government Departments as being in order, and in due course a cheque was paid by the Treasury and the matter was closed. But no final settlement of any claim was made by the Railway Executive Committee or Accountants' Committee until it had been passed by one of the Government accountants.

(5) DIVISION OF REVENUE ACCOUNT ABOVE AND BELOW THE LINE: CIRCUMSTANCES SURROUNDING.

This matter has already been referred to (*ante* p. 4). The fact of interest being included in Account No. 8 was the determining factor in bringing about the decision to limit the Government guarantee to the first seven items of the account.

Rents and other items were more or less immaterial, their amount being small, and the chance of loss or gain to the companies negligible; but it was not unnatural that the Government should hesitate to guarantee the interest accounts of the companies, and the inclusion of the item of interest would undoubtedly have complicated the arrangements on account of the way in which, as already explained, interest is dealt with in railway accounts (*see* page 4).

Moreover, there are many items of interest which were quite unaffected by Government control, and which there seemed no ground for bringing within the agreement (*e.g.*, the allowance of interest on superannuation funds, bank deposits, etc.) being wholly unconnected with traffic.

(6) WAR BONUS CONTRIBUTIONS: CIRCUMSTANCES LEADING UP TO COMMUTATION IN 1917.

As already stated, the railway companies agreed to bear 25 per cent. of the first war bonus granted in February, 1915, to certain grades.

When the bonus was increased to an all round 5s. per week in October, 1915, the accountants drew attention to the impracticability of continuing to charge the railway net revenue with 25 per cent. of the original bonus, and it was proposed to the Government and agreed that the first bonus should be treated as equivalent to 2s. 6d., and that the liability of the companies should be arrived at by assuming

it to be equal to 12½ per cent. of the increased war bonus payment.

In September, 1916, the bonus was increased to 10s. per week, and the proportion borne by the companies was correspondingly reduced, viz., to 6½ per cent.

In April, 1917, the bonus was increased to 15s. per week with a further addition in case of Sunday duty. By that time the separate calculation of the proportion of war bonus payable by the companies was found to involve the companies in considerable trouble, and it was thought that the best plan would be to commute the percentage for a lump sum.

This was done as from 1st January, 1917, on the basis of the amount chargeable to the controlled companies for the year 1916.

The matter was treated as purely one of accountancy, the only object being simplification of calculation, and when the Circular Letter to the companies was issued a copy was sent to the Board of Trade with a request that they would notify the Treasury of its contents.

Since the date of the Armistice the whole conditions of service of railwaymen have been completely altered, and of course war bonuses in their old form have disappeared, but the companies have continued to pay annually, out of their own funds, the commuted amount.

(7) PROVISIO DEDUCTION: AS TO 1913 BEING A PEAK YEAR.

The origin of the "proviso" and the circumstances which led to its discontinuance as from 1st January, 1915, have already been explained.

Undoubtedly 1913 was a "peak" year, but not to the extent that the Board of Trade returns would seem to indicate, where the figures given are:—

		£
Page 21.—Net receipts, 1911	...	48,581,746
	1912	47,329,074
Page 79.—Net income, 1913	...	52,130,879

These figures, however, are not comparable, owing to the alteration in the form of accounts for the year 1913.

Comparable figures were prepared at Sir William Plender's request, and were submitted by him to the Rates Advisory Committee. They appear at page 48 (12th October, 1920) of the Notes of Evidence of the recent inquiry into rates revision, and are as under:—

		£
1911	...	47,480,823
1912	...	46,423,785
1913	...	48,856,451
Average	...	47,587,020

The difference between these two sets of figures is mainly due to the fact that, in arriving at the latter, charges upon net income in respect of rent charges, rents of leased and worked lines, etc., have been deducted. The amount of such charges is considerably greater in 1913, because in that year, as a consequence of the new form of accounts, all such charges were dealt with after the ascertainment of the figure of net income of £52,130,879, whereas in 1911 and 1912 certain of the charges were dealt with before the ascertainment of the respective figures of net receipts quoted in the Board of Trade railway returns.

It will be seen that, taking comparable figures, 1913 is only £1,375,628 higher than 1911, and £1,269,431 higher than the average of three years, without making any allowance for additional capital expenditure.

The fact that both in 1911 and 1912 there were disturbing factors—in the one year a railway strike, and in the other coal, etc., strikes, which in each case worked to the detriment of the railway companies, points to those years—or even an average of the three years (1911-13)—being unsuitable for the purposes of the agreement, viewed in relation to aggregate net receipts.

But if an agreement was to be arrived at on the lines desired by the Government, it was necessary to select a period that was not only free from objection as between the Government on the one side and the railway companies collectively on the other, but that

was fair as between individual companies; failing that, it could hardly be expected that the terms suggested would be accepted by all companies, and unanimity was essential to the scheme.

The proportion of coal traffic on different companies varies very greatly; consequently different companies were differently affected by the coal strike in 1912. The effects of the strike were reflected in the mineral traffic receipts of the different companies, which showed an aggregate falling off for the June half-year, as compared with the corresponding period in 1911, of about £1,400,000; but the drop in receipts in the case of the larger companies varied from 5 or 6 per cent. in the case of some of the southern lines to more than 18 per cent. on the North Eastern; while still higher percentages—in some cases over 30 per cent.—were disclosed in the accounts of some of the smaller companies largely dependent on mineral carryings.

There is another consideration which would have made it unfair to the railway companies to base the agreement on the years 1911-1912. After the railway strike in August, 1911, the wages of many grades of railwaymen were substantially increased, but owing to the delay in passing the Railway and Canal Traffic Act, 1913, the companies were not in a position to recoup themselves for this additional expenditure until July, 1913. The net receipts were thus unduly depressed during the intervening period.

This last point affects also the comparison between 1913 and 1914. The accounts of the companies for the first six months of those two years showed, as already pointed out (*ante* page 5) a falling off in 1914 of £732,501; but in that year most of the railway companies had made reserves in respect of the increase in their goods rates which they had made under the provisions of the Act of 1913, but which had been challenged by the traders. These reserves probably amounted in the aggregate to at least £300,000 or £400,000, so that the real difference between the two periods is only about one half of the amount shown by the accounts, and the railway companies might fairly have claimed that in applying the proviso, under which account was taken of the fact that the receipts in 1914 were thought by the Government to point to a falling off in traffic, the amount of the reserves should be added to the net receipts of 1914.

Altogether it is submitted that there is very little in the suggestion, if such has been made to the Committee, that the selection of 1913 was unfair to the Government as having been a "peak" year.

It must be borne in mind that the Government saw substantial advantage to the State in adopting this particular form of agreement, and the stipulation on the part of the companies that the Government guarantee should be based on the year 1913 seems in all the circumstances to have been a perfectly fair one. In point of fact, as already pointed out (*ante* p. 5), up to the date of the Armistice the Agreement worked out distinctly favourably to the Government.

(8) CIRCUMSTANCES IN WHICH CLAUSE 4 OF THE BLUE BOOK WAS AMENDED BY CIRCULAR 686 (INCREASED FIRST COST).

The circumstances in which Clause 4 of the Blue Book was amended by Circular Letter No. 686 have already been outlined in connection with the supplementary clauses.

It will be remembered that one of the "Six Points" raised by the Railway Executive Committee in connection with these clauses was "Charges for Renewal of Permanent Way and Rolling Stock."

The regulations, as they then stood, were thought to press hardly on what are known as "non-programme" companies, that is, companies whose practice it is to charge to working expenses either the actual amount expended upon renewals in each year or an indefinite sum according to circumstances. Under the regulations, as interpreted, if such a company spent more on renewals in the control period than it spent on the corresponding item in 1913, the excess was disallowed, whereas, if it spent less, its charge against the Government was limited to its actual expenditure.

The regulations also were not clear as to how far it was open to a company to include a charge for

renewals in respect of additions to rolling stock or mileage of line.

The Board of Trade and Treasury thought the matter was one to be dealt with by the Government Accountants as one of interpretation of regulations, and left it to be dealt with in that way.

The amendment, therefore, took the form of an "agreed interpretation of Article 4," meaning Article 4 of the Blue Book, and was drafted so as to remove the hardship referred to and to make clear, by a more detailed enumeration, what were the circumstances in which a company could claim to be allowed to charge a larger expenditure for renewals than the amount included in its accounts in the corresponding period of 1913.

These were defined as the sums—

- (1) necessary to make provision for the renewal of—
 - (a) additional mileage of line, or
 - (b) additional units or increased first cost of rolling stock in service;
- (2) attributable to increased rates of pay or prices of materials paid in respect of renewals carried out during the period and chargeable against the Government.

The words "increased first cost of rolling stock in service" affected companies which based their renewal programmes on the prime cost of their stock.

When the draft interpretation was sent to the Government Accountants for their approval, their attention was specially drawn to this fact, and they expressed their approval of the words in question, which are believed to have been in accordance with the action previously taken by them in relation to the accounts that had been submitted to them for the period August to December, 1914.

The "agreed interpretation" was sent out with Circular letter 686, dated 28th September, 1916.

- (9) CIRCUMSTANCES IN WHICH ARREARS OF MAINTENANCE INSTRUCTIONS WERE AMENDED PROVIDING THAT THERE SHOULD BE NO SET-OFF BETWEEN ABSTRACTS.

There does not seem to have been any such amendment of the instructions as is suggested in the Notes.

From the first, that is to say, from the time when the instructions embodied in the Yellow Book came into operation, the arrears of maintenance in Abstracts A and B were dealt with as follows:—

- (1) Abstracts A and B were treated as wholly separate and independent.
- (2) All items in Abstract A were treated together, e.g., an excess on signalling was set off against a deficit in bridges or permanent way.
- (3) In other words, to entitle a company to charge anything for arrears of maintenance under Abstract A, it had to show that the aggregate expenditure chargeable to the Abstract (after due allowance for difference in cost) was less than it had been in 1913.
- (4) The three parts of Abstract B (i.e., locomotives, carriages and wagons) were looked at together, so that an excess in locomotives was set off against a deficit in carriages or wages and *vice versa*.

Some companies thought this rather hard, and it is perhaps difficult to justify the arrangement logically, for there seems no logical reason why a company should not be allowed to make proper provision in its accounts for unexecuted wagon repairs simply because it has exceeded its 1913 expenditure (say) on repairs of locomotives. (As regards renewals the position was altered by C.L. 686.)

But the whole arrangement was of a give-and-take character (e.g., there was no particular logic in the payment of 115 per cent. of pre-war cost) and though in some cases it seemed rather unfair to the companies concerned to lump together the three parts of Abstract B, the Railway Executive Committee thought that if a company were to withdraw men from carriages to wagons or *vice versa* without adequate reason, it would not have been an easy thing for the Government to detect or check.

But from the first, that is to say, from the issue of the Yellow Book, when it was decided to merge the three parts of Abstract B, no question seems to have been raised as to Abstracts A and B being kept separate.

Moreover, there is certainly nothing to indicate that when the question of arrears was first broached, in 1914, it was in anyone's mind that excess expenditure in one direction was to be set off against arrears in another—for instance, that if a company had not been able to keep up its permanent way, its claim was to be disallowed if its repairs to locomotives had been in excess of 1913.

- (10) CIRCUMSTANCES IN WHICH ARREARS OF MAINTENANCE FORMULA WAS AMENDED IN BROWN BOOK AS A RESULT OF WHICH GOVERNMENT WAS CHARGED WITH THE ADDITIONAL COST OF EXCESS RENEWALS.

It is understood that the amendment of the formula referred to in the Brown Book was due to the Accountants' Committee coming to the conclusion, after practical experience of the formula in the Yellow Book, that the latter was incorrect. The question involved is purely one of accountancy and is of an involved and intricate character, as evidenced by the fact that the Accountants' Committee themselves only arrived at their conclusion after long consideration, and that when they did so they reversed their previous decision.

A somewhat similar point, with regard to the allowance to be made in respect of the extra (i.e., war time) cost of renewals in excess of the expenditure chargeable against the Government, arose in 1919, with a similar result, and the Government Accountants, after very carefully considering the point in consultation with the Ministry of Transport, arrived at the same conclusion as the Accountants' Committee, which was contrary to the opinion they had expressed on a previous occasion in connection with a claim by one of the companies.

- (11) CIRCUMSTANCES LEADING UP TO FORMULATION OF SUPPLEMENTARY CLAUSES (PINK BOOK).

This has already been fully dealt with.

APPENDIX XXVII:

Submitted by Sir ALEXANDER BUTTERWORTH.

(Vide Questions 4337 and 4672 in Minutes of Evidence.)

21st January, 1921.

24th January, 1921.

Departmental Committee on Railway Agreements.

Departmental Committee on Railway Agreements.

Dear Sir ALEXANDER BUTTERWORTH,

Dear Mr. TWENTYMAN,

I am desired by Lord Colwyn to refer to your reply to Question 4337 in the Minutes of Evidence taken on Wednesday last, in which you said you would rather some other Member of the Railway Executive Committee spoke on the particular subject under discussion, viz., the practice under which interest on the sums paid by the Admiralty in respect of lost ships is credited below-the-line,—and to a number of similar replies given by you at other times.

With reference to your letter of the 21st instant asking whether the General Managers desire to tender evidence on any points through another member of the late Railway Executive Committee, I am sorry that as there is no meeting of the Standing Committee this week I shall not have an opportunity of consulting my colleagues before Wednesday. I think, however, their answer would be that they do not wish to tender evidence.

Lord Colwyn would be glad if you would bring these points to the attention of your colleagues and inform him at the earliest possible moment whether they desire to tender evidence to the Committee on these or any other points through another Member of the late Railway Executive Committee.

Speaking for myself, and assuming that the Committee do not wish to examine me with reference to the arrangements between the Government and the companies about railway steamers (pp. 122-124 of the White Paper) about which I am not in a position to speak, as I had practically nothing to do with the making of these arrangements, it does not occur to me that there is any need to call another railway witness to give information to the Committee, but I need hardly point out that it is difficult to express an opinion in the absence of information as to the evidence given to the Committee by previous witnesses.

Yours very truly,
(Signed) E. TWENTYMAN,
Secretary to the Committee.

Yours faithfully,
(Signed) A. KAYE BUTTERWORTH.

Sir A. Kaye Butterworth.

E. TWENTYMAN, Esq.,
Secretary,
Departmental Committee on Railway Agreements.

APPENDIX XXVIII.

(Vide Question 4534 in Minutes of Evidence.)

Copies of the following letter were submitted to the Committee by Sir ALEXANDER BUTTERWORTH with regard to Question No. 4534 on the subject of Arrears of Maintenance—Additional Rolling Stock in Service.

North Eastern Railway,
Newcastle-upon-Tyne.

24th January, 1921.

Arrears of Maintenance.

Additions to Rolling Stock in Service.

Dear Sir ALEXANDER,

I understand from you that it has been suggested that as the increased first cost of rolling stock in service to which the rates of depreciation for renewal purposes at pre-war rates are applied is already swollen by reason of increased wages and prices of materials, the calculation of the renewal charges at programme percentages applied to such increased costs adequately meets the deferred liability of the companies without the addition of 15 per cent. as provided by the formula upon the amount so calculated, or of any other percentage which may be ultimately agreed as the cost of carrying out the unexecuted work at the close of control.

Regarding units of rolling stock which have been acquired at maximum prices (if maximum can be considered to have been reached up to now), no doubt the percentage calculation applied to cost will provide the means for replacement in the future without the additional percentage supplied under the arrears of maintenance arrangement, but the same statement cannot be made regarding any units which have been acquired during control at less than the "maximum" prices, and, except for this additional percentage, no means exist for providing the companies with any payment on account of the increase in cost which has taken place between the date of the acquisition of new stock and the present time.

You will remember that the advance in prices was not very marked in the earlier years of control, it was in fact almost negligible compared with later years.

It was, however, and still is, impracticable to devise a scale which would give a graduated amount (on account) in respect of additional rolling stock acquired in the various years of control.

In considering this question it is perhaps well to remember that the 15 per cent. upon the increased first cost of stock in service is so small a proportion of the whole claim for arrears while the ultimate cost of executing the work appears likely to be so much in excess of the sums the companies have received on account of it, that there can be no danger of the margin still unpaid being seriously encroached upon.

The arrears of maintenance arrangement, as a whole, was a broad one to enable companies to claim currently substantial payments "on account," and, although dealing with many points in detail, it could scarcely be regarded as entirely and fully covering all the points that a final settlement would have to take account of, a notable point, among others, for which no provision was made being a lessened production per man hour.

It may be that on a final settlement, arrears in respect of increased stock in service should only be brought into account on the basis of the difference between the costs at the date of acquisition during control and the costs ultimately agreed under the arrangement, and, if this be admitted there scarcely seems to be a case for any present alteration in the formulae regarding the addition of 15 per cent. to the increased cost of stock in service even if a more exact method than the present could be devised, such, for instance, as a sliding scale providing for a reduction in the percentage addition according to the year in which new stock was acquired. But even such an arrangement as this could not be universally applied; as where the increased provision is all expended the existing formula is, in my view, accurate.

Yours faithfully,
(Signed) A. E. WILLIAMS.

Sir A. Kaye Butterworth.

APPENDIX XXIX.

Submitted by Sir ALEXANDER BUTTERWORTH.

(Vide Question 4715 in Minutes of Evidence.)

25th January, 1921.

Departmental Committee on Railway Agreements.

Dear Sir,

You will remember that at the last sitting of the Committee a question was put to me by a member of the Committee as to the effect of the 8-hours day upon the railways from the point of view of the number of men employed, and financially. I have made enquiry, and the best information I can obtain is that the additional number of men required in

consequence of the 8-hours day was approximately 76,000, and the cost in wages approximately £13,000,000 per annum; the latter figure represents only the ordinary wages of the additional staff, and is exclusive of any additional payments, such as overtime and Sunday duty.

Yours faithfully,

(Signed) A. KAYE BUTTERWORTH.

E. TWENTYMAN, Esq.,

Secretary,

Departmental Committee on Railway Agreements.

APPENDIX XXX.

Submitted by Sir ALEXANDER BUTTERWORTH.

(Vide Questions 4944-4947 in Minutes of Evidence.)

24th January, 1921.

Departmental Committee on Railway Agreements.

Dear Mr. TWENTYMAN,

With reference to the request made by the Chairman at the last sitting of the Committee that I should ascertain whether it would be possible to obtain for the Committee any information as to the amount of the ultimate claims of the railway companies against the Government, I communicated as promised with the Chairman of the Standing Committee of General Managers, and give you below copy of the reply I have received:—

“With regard to the point you asked me to consider with the General Managers as to giving the Committee some indication of the amount of any claims that may have to be submitted by the individual companies at the end of the period of control, I have been requested to say that on thinking the matter over we have come to the conclusion that it would be impossible for the companies to give any idea as to what the possible claims may amount to. Any estimate, as

you will realise, depends so much upon the trend of prices at the end of the period of control, and so much upon whether the railway companies are handed back by the Government in a position to earn an adequate net revenue. Both these matters are in the lap of the gods, and we think it will be useless to try to arrive at any estimate, however vague. We do, however, ask that you refer to the statements that have appeared in the Press to the effect that the claims of the railway companies may amount to somewhere about £400,000,000, and to state that any such statements have been published without authority and certainly without any consultation with the railway companies. In fact, so far as we know, none of the companies have taken any steps towards formulating their individual claims.”

Yours faithfully,

(Signed) A. KAYE BUTTERWORTH.

E. TWENTYMAN, Esq.,

Secretary,

Departmental Committee on Railway Agreements.