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**GOVERNMENT
CONTROLS**

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GOVERNMENT CONTROLS

A Summary for Accountants



LONDON

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The following subjects are not dealt with in this book—

Income Tax, E.P.T., and N.D.C.
Rent and Mortgage Restrictions
Procedure of the Courts
Civil Defence Procedure

PREFACE

ONE of the heaviest, but at the same time invisible costs of war falls upon the men and women who give up their civil occupations and become absorbed into the various National Services, both military and civil. Years thus spent in the Services are, from the individuals' points of view, invaluable ones which otherwise would have been given up to establishing themselves in their chosen callings. Especially is this cost most serious in the cases of the younger age groups, i.e. from 18 to 28 years of age, for these are the vitally important and formative years during which an individual has to learn the technique of his or her vocation and gain practical experience, thus fitting him or her self for life's journey. The years cut out of this period are all important and must inevitably be at a great cost to these men and women.

This fact has been widely realized and the older generation is determined to make every endeavour to help the returning service men and women to bridge this most difficult gap in their civil careers.

That is the purpose of this book. On the 17th April, 1945, the Parliamentary Secretary of the Board of Trade (Captain The Rt. Hon. Charles Waterhouse, M.P.) presided over a conference summoned by him, at which there were present representatives of the Institute of Chartered Accountants in England and Wales, the Scottish Societies of Chartered Accountants, the Society of Incorporated Accountants, the Association of Certified and Corporate Accountants, and the Institute of Cost and Works Accountants. In acknowledging the aid given by the Accountancy profession to the Board of Trade in its wartime work the Parliamentary Secretary expressed the hope that the Accountancy profession would take steps to provide information on wartime controls and similar matters for the benefit of its members returning from the Services, and offered to help with any information that might be required on Board of Trade controls.

A special committee was therefore appointed, the membership of which was as follows :—

Chairman : Mr. Bertram Nelson (Society of Incorporated Accountants).

Members : Mr. F. R. M. de Paula (Institute of Chartered Accountants in England and Wales).

Mr. John Adamson (Societies of Scottish Chartered Accountants).

Mr. D. D. Blackwood (Association of Certified and Corporate Accountants).

Mr. H. Wilmot (Institute of Cost and Works Accountants).

Mr. R. E. Yeabsley (Board of Trade).

This Committee decided to prepare this booklet, the primary purpose of which is to outline the Government controls which will still affect the daily practice of Accountants. In this way, it is hoped that members returning from the Services may be enabled to bring their knowledge up to date and thus be placed in the same position as members who remained in practice or in industry throughout the war.

The various subjects have been presented in broad outline only, as it was thought that in this way readers would be able to obtain a comprehensive view. In each section particulars are given where detailed information can be obtained.

In the writing of the various sections of this booklet, the Committee has been greatly helped by the various Government departments concerned. For this invaluable help the Committee is deeply grateful. The Board of Trade kindly made available to the Committee the services of Mr. M. E. White and Mr. J. H. L. James. The Committee wishes to acknowledge the valuable contribution that Messrs. White and James have made towards the preparation of this booklet and to express the Committee's very sincere thanks for those services.

Government Contracts and Sub-Contracts

THE Departments principally concerned with Government Contracts and Sub-Contracts have been :—

The Admiralty.

The Ministry of Aircraft Production.

The Ministry of Supply for Army and miscellaneous stores.
Each of these Departments has Regional Offices.

The War Office, the Post Office and the Ministries of Food and of Works have also been concerned with Government Contracts. In addition, the Ministry of Production has acted as a co-ordinating Ministry and has had its own Regional organization : its organization is now largely merged with that of the Board of Trade.

In August, 1945, a single Minister was appointed for the two Ministries of Supply and Aircraft Production, which still, however, maintain their separate identities in many respects.

Many contractors and sub-contractors have, of course, been simultaneously working for two or more of these Supply Departments. In such cases, contracts have been placed separately by each Ministry but, to avoid overlapping, cost investigations have been undertaken by the particular Ministry with the largest interest in the firm's production. Thus a single cost investigation might cover contracts for several Government Departments.

Main contractors have generally been given the responsibility of placing contracts with sub-contractors. A sub-contractor has therefore usually arranged his prices, production details and deliveries with his main contractor, rather than with a Ministry direct. The Ministries have, however, in practice kept in close touch with most sub-contractors and have required main contractors to comply with certain conditions when sub-contracts

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were being placed—for example, to embody in many sub-contracts a clause giving the Ministry power to investigate costings.

The practice of the Ministries has not been identical in respect of contract conditions: they have each had their own forms and cost investigation procedures. Common principles have, however, been established and it is these which will be dealt with in the following notes.

TYPES OF CONTRACTS

The great majority of Government contracts and sub-contracts have in recent years been placed on a "*fixed price*" basis, exactly as in ordinary commercial practice. In such cases, neither the Ministry nor the contractor can require a retrospective adjustment of profits, the contractor taking the entire risk and being therefore entitled to retain whatever profit he can make. Where the contract so provides there may, however, be adjustments in respect of variations in wages and materials rates.

The fact that prices have been included in an accepted tender or in an order does not, however, necessarily mean that there is a fixed price contract. If any reference is made in the relevant document to a costings clause (e.g. to Standard Conditions, etc. or to Ministry of Supply Standard Conditions Clause 8 or 27-54 or to M.A.P. Circular Letter 99 or Form 2561) it is probable that the Ministry has power to reduce the price if, upon investigation, it is found that the charges for materials, labour and overhead costs and the profit margins are not in the opinion of the Ministry fair and reasonable. Such contracts are known as "*costed*" or "*maximum price*" contracts.

These are the two main types of contracts and sub-contracts now in use but other methods will be met with, especially as respects the early years of the War.

"*Cost Plus*" contracts have been extensively used where it has been impossible to estimate costs in advance: here the contractor has been paid the ascertained costs of production, plus an agreed profit. "*Repair*" contracts of several types have been used, sometimes on the basis of cost plus or profit margin on some agreed scale and sometimes on a "*standard charge per*

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operation" basis. "*Target Price*" contracts were used in the early years of the war; the principle here was to agree a basic price in advance and to allow the contractor to retain a portion of any saving he was able to make on such price.

There have been many variations of these methods—at one time, over 40 types of price control were being used—but accountants are unlikely to meet with them in future, except in specialized industries where special agreements have been made with Trade Associations.

CONTRACT CONDITIONS

Firms on Government orders have been supplied by the Departments concerned or by their main contractors with details of the relevant contract conditions: Accountants who are asked to advise on contract settlements are therefore recommended to ask their clients for a copy of such conditions since procedure has varied widely and it is not possible in a book of this character to indicate details of contract procedure.

It will usually be found that the Contract Conditions of Government Contracts for Stores Purchases include the following:—

- (a) Complete right to Ministry of inspection and rejection.
- (b) Provisions as to packing, delivery, rendering of bills and progress reports.
- (c) Provisions as to when the goods become the property of the Authority (as regards War Damage, etc.).
- (d) Fair Wages Clause.
- (e) Provisions as to issue of materials: often "free issue," i.e. not charged to the contractor or sub-contractor but held by him as agent for the Ministry or Main Contractor.
- (f) Prohibition of sub-contracting without permission.
- (g) Prohibition of paying Patent Royalties without permission.
- (h) The Price Fixing Clause. In a costed contract, it is provided that "Fair and reasonable prices shall be paid,..., such prices to be fixed by agreement ... or in default of agreement to be fixed by the Authority."

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There are usually also provisions for progress payments (up to 90% of total expenditure incurred to date) and for variations in prices in respect of increases in wages or prices of materials, or sub-contracts. There is also an obligation to keep books and records and to allow inspection thereof.

- (i) Break Clause. "The Authority shall ... have power to determine the contract at any time by giving to the contractor written notice, to expire at the end of the period specified in the Schedule," whereupon the contractor must refrain from commencing production, must complete articles in course of manufacture, must reduce production rate as rapidly as possible and must determine sub-contracts and orders for materials on the best possible terms. The Authority usually indemnifies the contractor against reasonable commitment, liabilities or expenditure and there is frequently a clause that "if in any particular case hardship should arise to the contractor from the operation of the Break Clause, it shall be open to the contractor to refer the circumstances to the Authority who ... shall make such allowance as in its opinion is reasonable." It is frequently provided that the total payable under the Break Clause shall not in any event exceed the total which would have been payable if the contract had been completed.

INVESTIGATIONS

There have been many types of investigations, usually falling under the following heads :—

- (a) Ministry investigations as to the costs incurred on specific contracts already completed or in progress.
- (b) Ministry investigations as to overhead rates for a complete business or Department, or as to the profits of a business or Department.
- (c) Ministry "Technical Cost Investigations," usually designed to determine what a specific contract or sub-contract should cost before production is commenced or during production.

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- (d) Investigations by a contractor's own Auditors, acting for and responsible to the Ministry.

So far as Ministry investigations are concerned, it should be understood that the officers visiting contractor's works are investigators only and not negotiators. Their purpose is to determine the facts, and negotiations are usually carried on later from the Contracts Divisions of the Ministries concerned.

In general, all the Supply Ministries have full powers of investigation as regards all the books and records of contractors and sub-contractors. This right exists quite apart from any Costing Clause in a particular contract.

As to investigations by a contractor's own Auditors, these have been used to a considerable extent as respects production contracts or progress payments and it is probable that the same procedure will be followed in relation to Break Clause Claims. Accountants who are called upon to undertake this work are supplied with a confidential booklet by the Ministry concerned. The certificate which they are required to give usually reads as follows :—

“ We have examined the method adopted in arriving at the figures contained in the above summary and are of opinion that it is a reasonable one. We have conferred with the officials and employees concerned in the compilation of the figures and have made such tests as we have considered necessary. The above summary is computed on the basis set out in the Ministry's Instructions and, having received such information and explanations as we have required, we are of the opinion that the above summary represents the cost of production of the contract and that the ratio of cost of production to own capital employed is reasonably correct.”

In Break Clause cases, the usual Certificate is :—

“ We have examined the figures set out in Sections C 1 (a, b, c and d) of the Claim with the books and records of the contractor and certify that, in our opinion, the total amount of £..... represents the charges reasonably incurred by the contractor in connection with the execution of the contract during the period from the

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date of commencement to the date of cessation of production and has been computed on the basis set out in the Ministry's Instructions as attached to our Letter of Appointment dated We have also examined the figures for Handling and Delivery Charges, etc., allowable under paragraph 3(b) of the Break Clause and certify that the amount of £..... shown under Section 2(b) appears to be reasonable."

If these Audit Certificates mentioned are not regarded as suitable, it is contemplated that Auditors will adapt this wording to the requirements of the individual case and will make such observations and qualifications as they may consider necessary. It should, for example, be stated whether the figures are based on the business as a whole or, if not, on which Section.

In later paragraphs, it will be indicated which points should receive special attention in carrying out audits of these types. Meanwhile, it should be emphasized that the Accountant concerned is acting for the Ministry and not for the Contractor. It is a matter for arrangement whether his fees should be paid by the Ministry or by the Contractor but, in either event, his responsibility is to the Ministry.

OVERHEAD CHARGES

The usual practice of the Supply Departments follows closely the principles of Income Tax law and practice but the following special points arise :—

Advertising. Advertising of a goodwill nature is disallowed but advertising which is not excessive in amount and which affords opportunity for Government contractors to be informed of new or improved processes, facilities and capacity is allowed.

Bad Debts. Bad Debts are not admitted as an expense on direct Government Contracts: in the case of sub-contracts, however, the risk is recognized and due allowance made.

Bank Interest. Disallowed.

Bonuses to Employees. Consideration may be given to bonuses if they directly relate to a more economical or increased production and provided that they are not in effect a distribution of profits. Each case is considered on its merits.

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Carriage Outwards. Usually treated as a Direct Charge.

Compensation for Loss of Office. Allowable if a reasonable sum, but should be spread over a period of time on some equitable basis (if of a considerable amount), so that annual charge does not exceed the resigning officer's annual salary.

Concentration Expenses (under a Board of Trade Concentration Scheme). "Contributions for 'care and maintenance' of closed firms usually allowed. Payments including an element of profit usually disallowed."

Consequential Loss Insurance. Premiums disallowed. Claims under policy excluded from computation.

Customs Duty. Treated as a Direct Charge.

Deferred Repairs. Departments are prepared to consider claims in respect of reserves within the maximum which has been agreed or is likely to be agreed with the Inland Revenue but limited to repairs deferred for the year in which production takes place.

Development Expenditure. A reasonable contribution to costs may be made where actual development expenditure has been incurred, provided that it is in respect of the supply under the particular contract and has not previously been totally recovered. This may apply to expenditure of previous years, whether written off in the Accounts or not.

Depreciation on Freehold and Leasehold Buildings in respect of all Contracts. Depreciation allowance on the capital value of a Contractor's premises owned by the Contractor should be granted at the rate of 2 per cent. per annum on the diminishing value, subject to a maximum of 50 per cent. of the Income Tax gross annual value for factories, etc., and net annual value for other premises. This allowance may be included in the Contractor's general overhead expenses.

In cases where there is no Schedule "A" Assessment, 50 per cent. of the Rating Assessment should be taken as the maximum allowance.

Depreciation of Plant and Machinery. The Wear and Tear Allowance for Income Tax purposes, including any additional amount for long hours of working should be included in cost in lieu of depreciation written off by the Contractor. In

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addition, if allowance for obsolescence on plant has been granted for taxation purposes it can be included in cost, provided that the amount is not abnormally large and as such would be spread over a period for the purposes of E.P.T. If it is so spread for E.P.T. the amount allowed in the E.P.T. computation can be accepted. Normally it would be preferable to use the E.P.T. or N.D.C. allowance to that granted for Income Tax, both for wear and tear and obsolescence. As regards capital, the figures upon which wear and tear is granted should be included in the Capital Statement in lieu of the balance sheet figure, less any allowance for Exceptional Depreciation granted.

Exceptional Depreciation on Buildings and Plant erected for War Purposes. This can be allowed to the extent agreed by the Inland Revenue Authorities (Maximum Annual Allowance of 10 per cent. on Cost) exclusive of the amount in respect of A.R.P. Expenditure. The amount allowed will be deductible from the Capital Employed. The amount to be charged in any one year should be the amount which has accrued during the year and no amount can be admitted in respect of exceptional depreciation accruing in previous years.

Discounts. All discounts on purchases, whether cash, trade, bulk or rebates must be credited to Direct Costs if possible or to Overheads. Cash Discounts received may be credited to Overhead Charges.

Directors' and Higher Executive Officers' Remuneration. The procedure has been for Ministry Investigators to apply in the first instance a broad test as to the reasonableness of such remuneration and to make their report to the Ministry on this basis. Full consideration is then given to all relevant factors and each case is considered on its merits, i.e. there is no rigid formula. Factors which may be relevant in relation to the reasonableness of such remuneration include :—

- (a) The pre-war remuneration of the individuals concerned and their contractual rights.
- (b) The growth in their responsibilities as measured by such matters as turnover and number of employees.
- (c) Their technical and professional qualifications.

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- (d) The remuneration which they could command if they were taking up new appointments with comparable undertakings.

Expenses of raising Capital. The expenses of raising capital in any form and also discounts on loans and debentures are not allowable expenses.

Hire-Purchase Charges on plant. In normal cases, this will be the subject of a Wear and Tear Allowance and such Allowance can be claimed, but the payment for the hire should be disallowed.

Interest on Capital Debentures, Loans or Bank Overdrafts are disallowed but Bank Charges may be admitted. Interest and Dividends receivable should not be credited.

Patents. The Departments will not allow payments for the maintenance of Patents not applicable to the supply under investigation.

Premiums on Lease. There will be no objection to a portion of the premium being included in Overheads to the extent to which it relates to the period covered by the Accounts, e.g. if a premium has been paid for a ten-year lease, one-tenth of the premium can be treated as a charge. A corresponding adjustment of premium must be made when computing Employed Capital.

Premiums for any Assurance on Lives of Directors, or Officials are disallowable except as regards the expense of insuring such Directors and Officials against explosion and similar risk, and under Pension or Provident Schemes.

Provident, Pension and Insurance Funds. Subject to consideration in special cases, the usual procedure is to disallow lump sum payments but to admit as an Overhead Expense an appropriate proportion of the annual payments to such funds.

Reserves. Reserves in excess of actual known or reasonably-anticipated liabilities are disallowed. Reserves will not be allowed if they relate to a period outside that covered by the Contract under investigation.

Royalties not applicable to the supply under investigation are disallowed. Royalties paid in respect of the supply under

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the contract should be charged direct and not included under Overheads.

Selling Expenses (including Commissions). These are considered individually by the Departments which are usually prepared to allow reasonable salaries and expenses of representatives and technical advisers where the employees concerned are directly engaged in relation to the Government Contracts concerned.

Taxation. Income Tax, Sur-Tax, N.D.C. and E.P.T. must not be included in the cost of Contracts.

Trade Associations. Subscriptions are usually allowed but allocations of Profits as between members are disallowable.

Travelling. Normally, no amount should be allowed in respect of employees travelling to and from their homes to the factory or office of their employers. In special cases, the Contractor or Sub-Contractors may have submitted a Travelling Scheme to the Ministry of Supply, Great Westminster House, S.W.1. reference A.D.C./S.C.B.3. for approval and, if the scheme has been agreed, he may have made a separate claim for reimbursement of these expenses.

War Damage. Damage or losses recoverable either under the War Damage Act or the War Risk Insurance Scheme must not be included in the cost of contracts.

War Damage Contributions. Not allowed.

War Risks Insurance on Plant and Stock. Usually allowed unless stock was allocated to contract and contractor was not required to insure.

OTHER MATTERS ON CONTRACT INVESTIGATIONS

Materials.

Importance is attached to :—

- (a) Materials being charged to contracts on a satisfactory system, at cost price after deduction of all discounts and rebates.
- (b) Scrap and Rejects being adequately recorded and reasonable in amount.

Labour.

- (a) Only Wages applicable to the contract being charged,

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with a proper differentiation between direct and indirect labour (supervision, overtime, stores control, holiday pay, national insurance training, etc.).

- (b) Wages Rates not being excessive.

Allocation of Overheads.

Any reasonable system adopted by the Contractor is accepted, provided that overheads are :—

Applicable to period and contract under review tied up with financial accounts not abnormal compared with pre-war.

If the contract has extended over more than one financial period, it may be necessary to use more than one rate of overhead expenses.

RESTRICTIONS ON PROFITS

The Capital Employed Theory.

Government Departments found it necessary to find some common denominator to enable them to assess the reasonableness of profits on Government Contracts and Sub-Contracts. In many cases, a broad test was imposed in the following manner :—

- (a) The “capital employed” in the business was computed broadly in accordance with E.P.T. methods, subject to goodwill and accumulated losses being excluded, to buildings being valued at cost less depreciation and to plant being included at written-down value on Inland Revenue basis.
- (b) The Department then computed a basic profit of $7\frac{1}{2}\%$ per annum on the capital employed. If the capital is turned over twice each year, the basic profit on turnover (i.e. sales) will then be 3.75%.
- (c) An additional percentage was then added in respect of Efficiency and Risk. The final figure might, for example, be 5% on turnover (i.e. sales).

The use of the “Capital Employed” Method.

The “fair and reasonable” profit having been computed in this way, the results could be applied :—

- (a) In fixing profit rates on *individual* costed contracts.

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- (b) In considering whether the *total* profits of the contractor or sub-contractor were excessive. Considerable opposition arose to the use of the theory in this way and to claims by the Ministries for retrospective rebates, with a result that the usual practice developed on the following lines :—

Fixed Price Contracts negotiated with Departments or Contracts without a Costings clause were never re-opened without the Contractor's consent. While a contractor or sub-contractor might be invited to make a rebate so as to reduce prices to a fair and reasonable level, any response was purely voluntary and a refusal would not prejudice future relations with the Ministry.

Main Contracts subject to a costings clause could be reviewed at any time (even after completion and payment). In such cases, there was no contractual right to adjust prices by over-all methods, though such methods might be used as being mutually convenient to avoid detailed investigation. Sub-Contracts subject to a costings clause were investigated by the Ministry concerned, who made any necessary adjustment in the settlement of the Main Contractor's price or by direct arrangement with the Sub-Contractors.

When a rebate was made, the Board of Inland Revenue usually raised no objection to a re-opening of tax assessment.

CAPITAL ASSISTANCE SCHEMES

All the Supply Departments provided facilities for capital assistance to Contractors and Sub-Contractors in respect of such items as :—

The purchase, erection or alteration of factories, canteens, etc.

The supply of specific plant from Government Stores on hire or hire purchase terms.

The purchase or manufacture, by the contractor, of plant and tools.

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Many types of Agreements were used and it is unnecessary to describe them in detail : in most cases, the negotiations were completed some years ago and the relevant agreement clearly sets out the position. The important points in these Agreements are usually these :—

- (a) The interest and/or hire charge and the term of the Agreement.
- (b) Whether there is any right or option of purchase.
- (c) The extent to which the asset may be used for non-Government work.
- (d) Whether Wear and Tear allowances for tax purposes may be claimed by the contractor.

THE "BREAK CLAUSE" (Cancellation of Contracts)

A typical Break Clause has already been quoted (page 6, clause (i)). On receipt of a notice of cancellation, contractors were expected :—

- (a) To commence no new production.
- (b) To complete existing work.
- (c) To determine sub-contracts.
- (d) To make an inventory of materials, stocks and plant relating to the cancelled contract.
- (e) To notify Ministry of Labour of redundant personnel.

Reference should be made to each specific contract to ascertain what claims should be made in respect of "reasonable commitments, liabilities or expenditure" or special hardship. In most cases, contractors and sub-contractors are supplied with special forms for these claims and their auditors may be invited by the Ministry to verify such claims. The procedure follows closely on that indicated in paragraphs above and the form of certificate is given in paragraph above. Professional accountants undertaking this work will be supplied with confidential Ministry Instructions.

It is important that the following items should be shown separately in preparing the Claim, though they may not all be allowed :—

All costs relating to completion of contract.

Wages payable (under E.W.O.) for idle time.

Claims re sub-contracts and losses on surplus materials.

Raw Materials Control

OUTLINE OF MINISTRY OF SUPPLY METHODS

THE Raw Materials Department of the Ministry of Supply has been responsible throughout the war for the control of most of the raw materials required by British industry. Recently the greater part of this Department has been transferred to the Board of Trade, but the Ministry of Supply remain responsible for iron and steel, certain non-ferrous and light metals and other raw materials closely linked with the engineering industry.

Details of materials affected are shown in the Raw Materials Guide, issued by H.M.S.O. The task of the Department is broadly one of procurement and distribution. It is responsible for ensuring supplies of both imported and home-produced raw materials sufficient to meet all essential requirements and also for supervising the distribution of such supplies to the best advantage. (Certain raw materials are, however, outside the scope of R.M.D. mainly because other departments have particular responsibilities which make it more appropriate for them to deal with the problems involved, e.g. coal and various coal tar products which are dealt with by the Ministry of Fuel and Power).

The organization of the Department comprises :—

- (a) A central Secretariat, dealing with question of policy and of co-ordination with the Government machine as a whole, and
- (b) A number of Raw Materials Controls dealing with the execution of the policy (in minor cases this part of the work is sometimes undertaken by a branch of the Secretariat).

The Secretariat works in close collaboration with the Controls, the staffs of which are mostly drawn from the industries concerned. Thus expert knowledge and acquaintance with the conditions of particular materials and industries are combined with central direction in accordance with Governmental Policy.

RAW MATERIALS

Importations to fulfil requirements are sometimes controlled by licensing of imports, but in most cases R.M.D. have found it necessary to purchase and import the whole of the supplies required. The production or acquisition of certain home-produced materials is also controlled. Methods of increasing home production during the war have included provision of capital assistance for new plant, the regulation and operation of Government factories by industrial firms acting as Agents for the Department, and the erection and direct operation of Government establishments by a Branch of the Department.

Purchasing arrangements are mostly carried through by the expert staffs of the individual Controls, who in many cases appoint overseas representatives. In a number of cases, long term bulk purchases have been made by inter-Government agreement. The Controls also supervise transportation details as necessary in collaboration with the Ministry of War Transport and the storage of materials within the United Kingdom.

Distribution of supplies is also carried out or supervised by the Controls. To ensure that supplies are not used for other than approved purposes, a number of Statutory Orders have been made providing that particular materials may only be acquired or used if a licence to do so has been obtained from the Controls concerned. Statistical Returns of stocks, consumption, etc., are required by Controls. In regard to certain materials, the number of importers or manufacturers concerned is so small that adequate control can be secured without recourse to Statutory powers. In such instances the Raw Materials Department and its Controls inform the Trade interest concerned of the purposes for which their material should be used and the quantity that they may supply to particular manufacturers, and the position is again supervised by way of statistical returns from the Trade interests.

Control over distribution and use of supplies maintained by the Raw Materials Department is supplemented by control administered by other Departments. For example, another Department of the Board of Trade operates a clothing rationing system. Exports also are supervised, as necessary, in collaboration with other Departments of the Board of Trade.

Each Control is provided through the Raw Materials Department with funds to carry out its extensive trading operations.

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It keeps and renders separate Accounts which are audited by firms of professional Accountants originally appointed by the Minister of Supply on the advice of a Committee of members of the profession. The Agency Factories also operate on funds provided by the Department, and render regular Accounts of their income and expenditure, in a standard form prescribed by the Department. These Accounts are also audited by professional Accountants appointed by the Minister. In these cases it has usually been found an advantage to appoint the Agents' own Auditors to deal with the Agency Accounts.

The Raw Materials Department is primarily a supply department and not a price-controlling department, but three reasons have in practice led the Department to introduce a system of price control :—

- (a) Shortage of supply or Government intervention in the normal course of supply and/or distribution.
- (b) State purchase of the raw material or—directly or indirectly—of the finished commodity or of the bulk of the finished commodity.
- (c) General stabilization programme.

Price control of one product may necessitate extension of that control to other closely related products to preserve balance within an industry. Generally, there are clearly defined stages in the production of a manufactured article, the earlier stages falling within the raw material range and the latter within the manufactured range. Price control of the latter is outside the province of the Raw Materials Department, being, so far as civilian supplies are concerned, normally undertaken by another Department of the Board of Trade whilst for supplies for the Services it is the responsibility of the Contracts Department of one or more of the "Supply" Ministries. Control of the intermediate stages is a matter of expediency which is settled by agreement between the Departments concerned.

Control of prices by the Raw Materials Department is exercised in many cases by the issue of Statutory Orders under the powers given by the Defence Regulations, laying down maximum prices for specified materials or goods. In other cases effective control has been secured by means of a "gentlemen's agreement" between the Department and the Trade interest concerned.

RAW MATERIALS

As regards commodities purchased in bulk by the Department for re-issue in the U.K., the issue price to consumers may be

- (a) at cost, or more usually at estimated cost averaged over a fairly long period to avoid fluctuations, or
- (b) above cost, to make a common selling price with substantial higher-cost home production of the same or a similar material, or
- (c) below cost, to stabilize cost of living or to prevent unnecessary increase in the cost of Service requirements where a higher raw material price might "snowball" the price paid by the Government for the finished product.

As regards commodities not purchased by the Department for re-issue to consumers, i.e. most of the home-produced materials or imported materials processed in the U.K., the method usually adopted has been to fix the price level for an industry as a whole based on the costing of a cross-section with reasonable allowance for profit calculated by reference to average capital employed. This gives individual producers an incentive to increase output and reduce costs. Steps have been taken by post-check on results to ensure that broadly the general level of resultant profits corresponds with what was budgeted for. To secure maximum supply of essential raw materials, it may have been necessary to keep in being those producers whose costs are too high to enable them to avoid a loss within the framework of a price structure which is reasonable for the trade as a whole. The solution in such cases has been, where possible, to accompany the imposition of price control with some provision for the diversion of part of the profits from low to high cost producers by means of a pooling system. Where products consist of a variety of types, the ordinary Trade differentials for the range are usually applied so as to produce the general level of prices desired. Where an effective system of price control is operated by the Raw Materials Department, the prices so fixed are normally—though not necessarily—accepted for Government purchases by Contracts Department without further investigation, thus avoiding the necessity of costing a final product back to the raw materials stage.

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Various relaxations in control have been made as supply conditions have improved and other changes may be made with continuing improvements.

SPECIAL ASPECTS OF MATERIALS CONTROLS AFFECTING CIVILIAN INDUSTRY

Most raw materials in short supply are allocated among Departments by an Inter Departmental Committee after the Raw Materials Controls have estimated the total quantities which they are able to distribute. The Board of Trade and other Departments interested in civilian industry are represented on this Committee and seek there to arrange for the proper level of supplies for civilian trades. These allocations are often further sub-divided out among specific uses ; for example, allocations of jute are made for the carpet industry, for the linoleum industry, etc., allocations of rubber are made for football bladders, etc. Once these allocations are made the job of distributing them among the individual firms who use the material is undertaken by the Raw Material Control, which in turn requires statistical returns, stocks composition, etc., from the various firms in the trade. In two special cases, iron and steel and to a lesser extent timber, the allocations are distributed to individual firms by the Departments claiming the allocation ; in the case of civilian trades this is normally the Board of Trade (except for engineering which is now the responsibility of the Ministry of Supply). The Board of Trade in turn sometimes delegates the work of licensing the raw material for an industry to an Association or Group of firms in that industry. Except in these two cases, therefore, firms requiring raw materials for civilian trade should apply to the appropriate Raw Materials Controls although any general correspondence about the adequacy of materials for that trade should be addressed to the appropriate Department.

Sometimes raw material control is operated alongside direct production control especially in the case of industries whose output is subject to the Machinery Plant and Appliances Order of the Board of Trade. In these cases manufacturers would normally receive at the same time a licence to produce under the Order indicating their licensed manufacturing output and a bulk licence to acquire the raw material they need for that quantity of output.

Civilian Industries : Board of Trade Controls

Part One

CONTROL OF PRODUCTION AND DISTRIBUTION OF CONSUMER GOODS (OTHER THAN FOOD)

INTRODUCTION

It is next intended to explain, in general terms, a group of inter-related controls which are administered by the Board of Trade. These are The Limitation of Supplies Orders, "utility schemes," clothes rationing and price controls. However these controls develop, it is to be expected that until they are removed they will directly affect the work of many practising accountants who may be required to give an auditor's certificate to certain statutory forms of return, to advise their clients on the records necessary to ensure compliance with the regulations or to assist their clients to provide certain information for the Board of Trade for the administration of these regulations. These controls may be changed considerably as industry changes from war production to production for civilian needs, and therefore instead of giving a detailed description of these controls in their present form, this section will be confined to a brief description of the history of these controls, and the way in which they have affected practising accountants. The following are the principal significant dates.

16th April 1940. Introduction of the Piece Goods and Made-up Goods (Cotton, Rayon and Linen) Order, 1940, which was superseded by the Limitation of Supplies (Woven Textiles) Order, 1940, on the 1st October. This latter Order brought woollen textiles under control also.

6th June 1940. Introduction of the Limitation of Supplies (Miscellaneous) Order, 1940, covering a wide range of other

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consumer goods which was superseded by other Limitation of Supplies (Miscellaneous) Orders at six monthly intervals.

March 1941. Start of the concentration of industry.

1st June 1941. Introduction of Consumer Rationing Order, dealing with clothes rationing.

1st September 1941. Introduction of utility clothing schemes.

Various dates during 1942. Prohibition of manufacture of unessential consumer goods and introduction of more positive controls over the manufacture and supply of consumer goods other than textiles.

LIMITATION OF SUPPLIES ORDERS

The limitation of supplies of consumer goods for the home trade was an important part of the general scheme for releasing labour, factory space, shipping and other productive resources for war purposes and greatly strengthened the direct controls of raw materials, labour and factory space, operated by the Supply Departments and the Ministry of Labour. As mobilization of productive resources progressed, the Limitation of Supplies Orders developed into more positive controls over the limited resources available for civilian needs and the direction of those resources to essential purposes.

The first problem in framing the Limitation of Supplies Orders was to decide and define the stage in the production and distribution of consumer goods at which the control should operate. Obviously there were conflicting considerations. Simplicity of administration suggested that the control should operate at the stage where there was the smallest number of traders and goods were sold only in bulk. On the other hand, equitable distribution, and the maximum conservation of stocks, required the control to be applied as close to the consumer as was administratively possible. Parallel considerations were the avoidance of any improper restriction of supplies of goods for Government and export requirements and for essential civilian needs. Other problems were to decide by what standard the restriction should be measured and what basis of measurement should be used.

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It was decided that the control should be applied at the ~~whole-~~ sale-to-retail stage. Manufacturers and wholesalers of controlled goods were required to apply to the Board of Trade for registration, and lists of registered persons and the classes of goods for which they were registered were published from time to time. Each registered person was required to calculate the quantity of controlled goods (variously measured in terms of square yardage of cloth, number of articles of made-up clothing, and value of miscellaneous classes of consumer goods) which he had supplied during a "standard period"; excluding supplies to other registered persons direct to overseas destinations, to Government Departments, and certain other supplies through "un-restricted" channels.

The registered person was then required to calculate his "quota" for each class of controlled goods for which he was registered, as a specified percentage of the quantity of controlled goods of that class which he supplied during the standard period, and to limit his supplies during the period of restriction to not more than his quota. Certain supplies of controlled goods, e.g. to Government Departments, to local authorities, direct to overseas destinations and to other registered persons, were not counted against the registered supplier's quota. Thus, a manufacturer, whose trade in the standard period was mainly with registered wholesalers, would have had a small, and perhaps nil, quota for supplies during the period of restriction to unregistered retailers and consumers, and through other restricted channels; but the manufacturer was permitted to supply freely to registered wholesalers and through other unrestricted channels. Since the manufacturer's registered customers were in turn required to keep their supplies to unregistered persons within their quotas, they, in turn, limited their purchases.

The registered person was free to decide for himself how he should allocate his quota amongst his customers, though administrative arrangements were made from time to time to ensure priority to certain customers, e.g. to distribute a greater proportion of goods to retailers in those areas whose population had increased during the war and a smaller proportion to evacuation areas. The Board of Trade also used their powers to license additional supplies to ensure essential supplies, e.g. to hospitals,

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and charity organizations, and many of these licences required certain conditions to be fulfilled before they became operative.

The Limitation of Supplies Orders fell into two series. The first series, which started in April, 1940, covered woven textiles (piece goods and made-up goods). (For the purpose of this Order, makers-up were not compulsorily registered as manufacturers; they had the option of remaining unregistered, in which case their purchases of cloth would be restricted by their cloth suppliers, or of being registered, in which case they obtained quota free supplies of cloth, e.g. for the export trade, but as registered persons, were required to limit their supplies to the home trade). The second series, which started in June, 1940, covered the products of a wide range of consumer goods industries, including carpets, linoleum, pottery, glassware, metal furniture, cutlery, domestic metal hollow-ware (pots and pans, etc.), leather goods, photographic apparatus, musical instruments, gramophones and gramophone records, toys, fountain pens, fancy goods, jewellery, perfumery and toilet preparations, domestic appliances (lawn mowers, vacuum cleaners, refrigerators, etc.) which were grouped into 11 classes. The remaining 6 classes (making 17 in all) of controlled goods under the first Miscellaneous Order covered items of clothing and household textiles, which were transferred to the Limitation of Supplies (Cloth and Apparel) Order in September, 1941, when the utility clothing scheme was started.

The operation of the Limitation of Supplies Orders by the registered traders necessarily involved a considerable amount of clerical work; sales records for the standard periods had to be dissected between controlled goods and un-controlled goods, and between "restricted" and "un-restricted" supplies to provide the data for the calculation of the quotas; and a similar analysis of sales or deliveries had to be maintained during the periods of restriction, in such form as to show the cumulative totals of supplies against quotas during the period. For the enforcement of the Orders, registered traders were required to send to the Board of Trade, "returns" of their supplies of controlled goods during the standard and restriction periods, together with an auditor's report. The common form of the

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report which was agreed between the Board of Trade and representatives of the accounting profession, did not require the auditor to certify figures dependent on technical knowledge, but rather to confer with the officials and employees to examine the methods used to arrive at the figures, and to make such tests as he considered necessary.

For woven textiles and other clothing, the Limitation of Supplies Orders were gradually superseded by clothes rationing, the utility clothing scheme and other more direct forms of control. Similar developments took place on most of the consumer goods other than clothing. The principal classes of goods for which Limitation of Supplies Orders are still in force are toys, photographic goods, corsets (non-utility) and leather goods (trunks, suitcases, handbags, etc.).

There are many important details of the Orders, related to essential supplies, enforcement and administration, which are outside the scope of this paper, as also are various questions of legal interpretation. Practising accountants who require advice on such details before auditing the statutory returns, should refer to the Statutory Rules and Orders themselves (either their clients' copies or copies obtained from H.M. Stationery Office) and consult the explanatory notes appended to each form of return.

CLOTHES RATIONING

Whilst the Limitation of Supplies Orders provided a control on the total supplies of clothing, they did not ensure that the limited supplies were equitably distributed to the public. Owing to shortages of supplies of clothing and expected falls in production, the Board of Trade introduced clothes rationing in June, 1941, by the Consumer Rationing Order.

The broad principles of the scheme are simple. The rationed goods which include cloth, hand-knitting yarns, garments and footwear, are listed in a schedule which specifies the appropriate number of coupons (commonly called the "coupon pointing") to be surrendered by the consumer for each item. The retailer must surrender a similar number of coupons to his supplier when replacing his stocks; makers-up, who are required to obtain coupons against their supplies of garments must also

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surrender coupons to their suppliers of cloth. In this way, the coupons pass back along the chain of distribution to the registered manufacturer of the cloth, hand-knitting yarn, knitted goods or footwear, who, having no need of the coupons, is required to account to the Board of Trade for the coupons which he should have collected. There are also a number of unregistered manufacturers with small trade in rationed goods who account for their coupons to the Board of Trade on a simpler form.

The time spent on the counting, exchange and control of coupons was considerably reduced by the coupon banking scheme, introduced in June, 1942, whereby coupons are paid into bank accounts and transferred between traders by means of transfer vouchers drawn on the bank accounts. The transfer voucher is similar to a money cheque, except that it has to be confirmed by the paying bank before it is paid into the receiving bank.

The returns made by traders when accounting for coupons to the Board of Trade do not require auditors' certificates and, in general, clothes rationing does not make many calls on the professional accountant's time. The matters on which professional accountants may be asked to advise their clients are the maintenance of records in accordance with the regulations dealing with coupon bank accounts and the accounting for, and control of, coupons which are, in effect, an additional currency for a business in rationed goods. A trader may not use coupons placed on deposit with him by another trader in advance of the supply of goods until he has supplied the goods, but must maintain a sufficient balance at his bank to cover these deposited coupons. Similarly, a trader may not give "coupon credit" by supplying goods before he has received the coupons for them. These are two examples of the points which must be covered by the system of accounting and control of coupons.

DEVELOPMENTS OF THE LIMITATION OF SUPPLIES (WOVEN TEXTILES) ORDERS—THE UTILITY CLOTHING SCHEME

In the Spring of 1941, it was evident that there were developing shortages of essential clothing. The Limitation of Supplies

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(Woven Textiles) Orders did not distinguish between the various types of clothing required by different sections of the population or workers in different trades. Therefore, in September of 1941, the Board of Trade introduced the Utility Clothing Scheme, with the object of making the best use of the limited supplies of raw materials and labour available to produce sufficient quantities of clothing of "utility" types at low prices. As mentioned above, six of the classes of controlled goods under the Limitation of Supplies (Miscellaneous) Orders covered items of clothing, including knitted clothing and household textiles, and these were transferred to the Textiles series, which were re-named the Limitation of Supplies (Cloth and Apparel) Orders.

The introduction of clothes rationing in June, 1941, enabled the wholesalers of clothing to be removed from the register in September of 1941, the quota control of the Limitation of Supplies (Cloth and Apparel) Order being applied to manufacturers of cloth, hosiery, footwear, etc., but not to wholesalers or makers-up. There was a larger quota for supplies of utility goods than for non-utility goods. The quotas for utility goods were removed on 1st June, 1942, and the quotas for non-utility goods (except corsets) were removed a few months later.

Utility clothing is subject to strict control from the allocation of the raw materials to the sale to the consumer. There is a schedule of utility cloths, including specifications of prices, each cloth being given a "specification number." Raw material is allocated to the cloth manufacturer for the production of cloths of a particular type and he is directed to apply the utility mark and specification number to the cloth. The quantity of each utility cloth produced is carefully planned.

The cloth bearing the utility mark, that is to say utility cloth, may only be made into utility garments (or other articles for which the use of the particular cloth is authorised, e.g. utility upholstery), which must comply with specifications and directions about the making, and must be marked by the maker-up with the utility mark. A number of makers-up were "designated" for the making of utility clothing and were offered some protection for their labour force, provided they gave an undertaking

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that at least 75% of their total production would be utility clothing or production for Government contracts. Arrangements were then made for the allocation of supplies of utility cloths to these designated makers-up. When the making-up industry was concentrated this system of allocation of utility cloths was continued so as to ensure the necessary supplies to the nucleus makers-up.

The production of utility knitted goods and footwear is similarly planned, subject to the essential differences which arise from the different structures of these industries.

It is not necessary, for the purposes of this paper, to explain the planning of the production of utility clothing in more detail, but the practising accountant will be concerned with the price control of utility clothing, particularly the control on the manufacturers' prices. The manufacturing and making-up specifications enable "ceiling prices" to be fixed for each cloth and each made-up garment. The specifications also enable a ceiling price to be fixed for each item in the schedule of utility knitted goods, and for each specification of utility footwear. However, the specifications permit wide variations in the quality of the articles of a particular specification number and therefore the manufacturer is not permitted to charge as much as the ceiling price unless that price is justified by his costs. The maximum price which he may charge is the lesser of two prices :—

- (i) his costs of production and sale of the garment plus a specified percentage of those costs ;
- (ii) the ceiling price.

The regulations about the production of utility cloth and clothing and the manufacturers' maximum prices will be found in the Apparel and Textiles Order, 1942, and the Directions issued under that Order.¹ The Order is made under the Defence Regulations. The following is one example of the application of this Order.

The Woven Non-Wool Cloth (Manufacture and Supply) (No. 6) Directions, 1943, specifies a utility rayon dress cloth, specification No. 1002. This may be made with two finishes, specification No. 1002/1 is a dyed and crease resisting finish for which the manufacturer's maximum price is $2/1\frac{1}{2}$ d. per linear

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yard. Specification 1002/2 is a printed and crease resisting finish for which the manufacturer's maximum price is $2/5\frac{1}{2}$ d. per linear yard.

The Utility Apparel (Women's and Maids' Outerwear) (No. 2) Directions, 1944, permit this utility cloth to be used to make women's or maids' rayon dresses, and require the maker-up to apply the utility mark to the dresses. The Schedule to these Directions shows that the manufacturer's ceiling price for the utility dress on sale to a retailer or to a retail customer is 22/6d. per dress made from cloth 1002/1, and 25/6d. per dress made from cloth 1002/2. However, the maker-up may not charge more than his costs of production and sale plus 5% thereof, if that price is less than the ceiling price. In no case can he charge more than the appropriate ceiling price.

(These Directions are amended from time to time, and these figures may not be applicable at the time of publication of this booklet).

The maker-up must himself calculate his maximum prices by reference to his costs and the prices which he has charged are liable to investigation by the Board of Trade. Practising accountants who are required to advise makers-up on their costings for utility clothing are referred to the special notes on this subject set out in the Appendix.

Although in general there is no longer any quota control on the supplies of utility or non-utility cloth and clothing, it will be understood that the proportions of utility and non-utility production are controlled by the raw material allocations.

By a recent modification of the price controls, manufacturers of knitted goods are permitted to sell utility goods of certain specification numbers at minimum "standard" prices, whatever their costs may be. If a manufacturer of knitted goods wants to sell an article at a price higher than the standard prices, his maximum price is, in the usual way, the lesser of (i) his costs of production and sale plus the percentage margin, and (ii) the ceiling price. It is an essential part of this scheme that the goods must be made to approved samples, so as to safeguard the quality of the article, but by this means low cost producers are able to get some additional reward for their efficiency.

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The goods controlled by the Apparel and Textiles Order, 1942, are :—

- A. (1) Woven wool cloth.
- (2) Woven non-wool cloth.
- B. Knitted goods (including knitted, netted, or crocheted cloth and apparel).
- C. Corsets.
- D. Gloves.
- E. Fur Apparel.
- F. Footwear.
- G. Hand-knitting yarns.
- H. Headwear.
- I. Lace and lace net.
- J. Bedding (i.e. mattresses, bolsters, pillows, cushions, etc.).
- K. Braces.
- L. Flock.

Items A, B, C, D, E, F, J, and K, and also apparel and household textiles made from cloth are included in utility schemes.

DEVELOPMENTS OF THE LIMITATION OF SUPPLIES (MISCELLANEOUS) ORDERS

Of the original 17 classes of goods controlled by the earliest of these Orders, the first six classes covered items of clothing and household textiles which were transferred to the Limitation of Supplies (Cloth and Apparel) Order in September, 1941, when the utility clothing scheme was started. The remaining 11 classes of controlled goods covered the products of a much larger number of industries and, therefore, the developments of the Limitation of Supplies (Miscellaneous) Orders did not follow so consistent a plan as the developments of the Orders controlling cloth and apparel. In general terms, however, the problems were similar, to make the best use of the limited supplies of raw materials and labour available to produce sufficient quantities of essential goods, and to ensure that consumers with priority needs should obtain supplies of scarce goods before the general public.

The methods used to achieve these objects naturally differed according to the nature of the industry, the importance of the

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product, and other demands for the raw materials. This paper will not describe these controls in detail, but merely indicate the various methods of control which were used.

The manufacture of a wide range of inessential goods (e.g. goldsmiths' and silversmiths' wares—with certain exceptions, certain kinds of cutlery, spoons and forks) was prohibited. In many cases these goods were defined by reference to the raw material used in their manufacture, rather than the goods themselves. (Some of these prohibitions have recently been relaxed).

The manufacture, or supply by the manufacturer, of certain goods was prohibited except under licence by a series of Orders usually called "Control of Manufacture and Supply Orders." By the Electrical Appliances (Control of Manufacture and Supply) Order, for example, a manufacturer may not make or supply controlled goods, except for the execution of Government contracts, unless he obtains a licence from the Board of Trade permitting him to do so. The effect of such an Order is, of course, to permit a very elastic form of control, since the nature and quantity of the goods to be manufactured, the materials to be used and the persons to whom the goods are to be supplied can all be specified and varied from time to time by the terms of the licences issued to individual manufacturers. Licences issued to individual manufacturers are generally operative for specified periods and it is not necessary for the manufacturer to obtain special licences for particular orders unless he is not permitted to execute these orders by the terms of his general licence.

The utility furniture scheme takes a similar form, but differs in administrative detail. The Furniture (Control of Manufacture and Supply) Order prohibits the manufacture of furniture except under licence. A few licences are issued to individual manufacturers permitting the manufacture of new non-utility furniture, or the reconstruction of secondhand or damaged furniture, but at present almost the whole production of furniture is utility.

Utility furniture is made to standard specifications, and arrangements are made for the allocations of timber and other materials to the manufacturers. Licensing of individual manufacturers enables the production of various articles to be planned regionally, and in total. Maximum prices are fixed in terms of

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money for each article of utility furniture. Distribution is controlled by the Utility Furniture (Supply and Acquisition) Orders, and most articles of utility furniture may be bought only against the surrender of "buying permits," which are issued on behalf of the Board of Trade to priority consumers, e.g. the "bombed out" and the "newly-wed."

If such individual control of the manufacturers is not necessary, the Orders may permit the production and supply of certain specified types of goods (for which maximum prices may be fixed) but prohibit the production of all other types of controlled goods except under licence. Cutlery and domestic pottery are among the goods which are controlled in this way. Although the specified types of cutlery and pottery are not officially called "utility," these controls have much in common with utility schemes.

Three industries, namely toys, photographic goods and leather goods have remained subject to Limitation of Supplies or similar Orders, whose provisions are, in the main, the same as those described above.

Manufacturers licensed under certain of the Control of Manufacture and Supply Orders, and persons registered under Limitation of Supplies Orders are required to make returns with an auditor's certificate, usually at six monthly intervals. The practising accountant is liable to be called in for this purpose, and to be asked to advise his client about the records which should be kept to enable the returns to be made. Full notes are issued by the Board of Trade with the form of return.

Part Two

CONCENTRATION OF INDUSTRY

Early in 1941 in accordance with the terms of a Government White Paper a number of industries were called upon by the Government to "telescope" production. By concentrating production of two factories into one factory, factory space was released for production and storage of munitions. At the same time there was in most consumer goods industries a deliberate contraction of the industry so that a considerable number of workers were released for national service or war work.

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In most industries the concentration schemes were arranged individually between the "closing" manufacturers and the nucleus or running manufacturers and submitted to the Board of Trade for approval. The Board's main interest, however, was to see that after concentration the "nucleus" factory would be operating as near as possible to capacity, so that the maximum factory space and labour was released for war production. Financial arrangements and other details were left to the parties to the concentration. The nucleus manufacturer undertook, for example, either to pay an amount each year as compensation to the closed manufacturer or to supply him with a certain amount of goods to sell in his own name or to manufacture his "quota" of raw materials for him. The form of agreement varied according to the circumstances of different industries. The Board of Trade did not ask for particulars of these agreements; they were private contracts. As regards tax relief under Section 18 of the Finance Act, 1941, in respect of payments made by nucleus firms to closed firms the Inland Revenue administered each case on its merits when the nucleus firms claimed the tax relief.

In a number of industries, however,—notably the cotton industry and the jute industry—the compensation arrangements took the form of a Levy Scheme covering the entire industry. In these cases the Levy Schemes were all approved by the Board of Trade and the Inland Revenue before they were brought into being.

In general, closed manufacturers who have retained their own selling organizations are regarded as manufacturers and are required to price the goods made for them by the nucleus manufacturers in accordance with the rules applying to manufacturers. Payments by nucleus manufacturers to closed manufacturers fall under two heads :—

- (i) various forms of compensation for loss of profits etc., and,
- (ii) payments for care and maintenance of the closed factory and plant.

In general, both kinds of payments are regarded as an allocation of profit for price control purposes, but for some industries whose products are price-controlled on a cost-plus basis, care

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and maintenance payments (less any rents received on account of the "closed" factory) may be treated as part of the nucleus manufacturer's costs, and as a reduction of the closed manufacturer's costs. Compensation payments may not be treated as an allowable cost.

The conditions to be satisfied before closed manufacturers will be permitted to reoccupy their factories and start to manufacture again have not yet been announced. It appears that the settlement of financial liabilities will be a matter for arrangement between the manufacturers concerned.

When the Board of Trade approve the re-opening of a closed firm they will inform the Inland Revenue. It has been decided that the taxation treatment provided by the Finance Act, 1941, will continue to be applied to cover compensation payments made by nucleus firms to "closed" firms for a transitional period after the closed firm has re-started production and while it cannot be said to be paying its way. The application of this principle to particular cases will be settled by the Inland Revenue authorities who will deal with each case on its merits.

Part Three

PRICE CONTROL

The Prices of Goods Act, 1939, came into operation on the 16th November, 1939. Section 1 of the Act provided that it was unlawful to sell price regulated goods "in the course of any business at a price which exceeds the permitted price, that is to say the basic price, together with the amount of any permitted increase" The basic price is the price at which similar goods were being sold in the course of the business in question, or in the course of a similar business, on or about the 21st August, 1939, and the "permitted increase" refers to increases in costs. The effect is that a trader is required to price his goods so that he makes no more net profit per article than he made on similar goods in August, 1939, or if he was not selling such goods at that time, as was made in a similar business then. The goods to which the Act applies are those set out in the Schedule to the Prices of Goods (Price Regulated Goods) Order, issued by the Board of Trade and revised and extended from time to time.

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The Act provided for the setting up of Local Price Regulation Committees, for local administration and enforcement of the Act, and of a Central Price Regulation Committee to exercise a general supervision over enforcement and to give advice and assistance to the Board of Trade.

The powers of the Board of Trade for price control were extended by the Goods and Services (Price Control) Act of 1941 which came into operation on the 22nd July, 1941. This Act gave the Board of Trade powers to make Orders fixing maximum prices for goods and maximum charges for services. These Maximum Prices and Charges Orders must apply to a class of businesses ; there is no power to fix maximum prices for individual businesses and the Board of Trade are required to consult the Central Price Regulation Committee before making an Order under the Act. Unlike the Defence Regulations, the Act does not give the Board of Trade powers to license individual traders, or a class of traders, to do anything contrary to the Maximum Prices and Charges Orders.

The Prices of Goods Act, 1939 (the principal Act) remains in force but its provisions about maximum prices do not apply to goods for which maximum prices have been fixed by the Order under the Goods and Services (Price Control) Act, 1941, or the Defence Regulations. As explained in the section dealing with utility schemes, maximum prices are fixed by Orders under the Defence Regulations for utility goods, and certain other goods of which manufacture is directly controlled.

A number of Orders have been made under these Acts fixing the maximum prices and charges for various goods and services, but a detailed description of these Orders, or a list of goods to which they apply, is outside the scope of this paper. In general, all clothing and most articles required for domestic, personal or office use, are price controlled either by these Orders, by Orders made under the Defence Regulations, or by the Prices of Goods Act, 1939. The details of these price controls are revised from time to time and any list of the present Maximum Prices and Charges Orders, or of the industries affected would not have a very permanent value.

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MANUFACTURERS' MAXIMUM PRICES

The various methods of price control applied to manufacturers may be classified under four main headings, but the detailed application of each method varies for different industries.

I. "Fixed prices" (that is to say maximum prices fixed in terms of money).

Under the Defence Regulations, this method has been applied to utility furniture, enamelware, hollow-ware, aluminium hollow-ware, cutlery, spoons and forks. In these cases the price control is essentially connected with the control of manufacture. For example, aluminium hollow-ware may only be manufactured under licence from the Board of Trade and the number of articles which may be manufactured is limited. The manufacturer's maximum price for a 6 pint kettle (not specially designed for use with hot plate cookers) on sale to a retailer is 3/6d., whatever his costs may be. The manufacture of utility furniture is also controlled under licence; the furniture is made to Board of Trade specifications and maximum prices for all articles are fixed in terms of cash prices. Fixed prices ("standard prices") without an underlying cost-plus control have also been specified for certain articles of knitted goods, provided the manufacturers' samples have been approved by the Hosiery Control. Orders have also been made under the Goods and Services Act fixing maximum prices in terms of money. Among the goods concerned are worsted yarn, fountain pens, standard wedding rings and certain items of haberdashery.

Cash maximum prices have recently been introduced for a wide range of women's ready-made non-utility outerwear; there are two sets of maximum prices for each article of clothing, depending on the price paid for the cloth used. This closer form of control replaces the "standstill" price control for this class of clothing.

II. "Cost-plus with Ceilings."

The manufacturer's maximum price is his costs of production and sale, plus a fixed percentage of those costs, except that if that price exceeds the specified "ceiling price" the manufacturer may not charge more than the ceiling price.

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Under the Defence Regulations, this method is applied to utility clothing, including made-up clothing (coats, suits, dresses, shirts, etc.) boots and shoes and some knitted goods. As explained in the section dealing with utility schemes, the specification of the various articles enables ceiling prices to be fixed in terms of money. This method has also been applied under the Goods and Services (Price Control) Act, 1941, to perambulators, toys and combs, and officers' retail bespoke uniforms.

III. "Cost-plus without ceilings."

This method has been applied under the Goods and Services (Price Control) Act, 1941, to non-utility wool cloth, and certain articles of non-utility clothing. For these goods, because there are no specifications corresponding to the specifications of utility clothing, there are no "ceiling prices."

IV. "Standstill Prices."

As applied to non-utility clothing, this method of price control means that the manufacturer may not charge a price exceeding the amount for which, in the ordinary course of his business, the goods, or comparable goods, were being lawfully offered for sale on comparable terms and conditions on the 30th June, 1942. If the manufacturer was not selling comparable goods on or about the 30th June, 1942, the June 1942 price is the amount charged on that date in the course of a substantially similar business.

This method has also been applied to other goods, although the date of the "standstill" is not always 30th June, 1942. For non-utility footwear, for example, the date of the standstill is the 30th September, 1942. Provision has been made in some cases for increases above the "standstill" price.

MAXIMUM SERVICE CHARGES

Maximum charges have also been fixed for certain services. For example, maximum charges for laundry have been fixed as the "basic charges" (the 1939 charges) plus specified additions. Maximum prices for the repair of boots and shoes have been fixed in a similar way, but at the option of the repairer that the maximum charge for certain repairs may be taken to be the charges set out in the schedule, e.g. soling and heeling men's

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boots or shoes 5/4d. ; soling boys' boots of sizes 9—10, 2/5d. In some cases maximum charges are fixed in cash, as for hemming and wool-combing on commission, or on a cost-plus basis, as for making up both utility and some non-utility clothing.

DISTRIBUTOR'S MAXIMUM PRICES

For all important classes of goods, both utility and non-utility, maximum selling prices chargeable by distributors have been fixed by Orders under the Goods and Services (Price Control) Act, either as cash sums (in cases where cash maximum prices apply to manufacturers) or by the addition of a specified percentage to the price paid by the distributor for the goods. It should be noted that the maximum price chargeable by a wholesaler is to be calculated by adding the percentage margin to "the price paid to the manufacturer by the first purchaser." Therefore, if any goods pass through the hands of more than one wholesaler, the wholesaler's percentage margin must be shared by all the wholesalers. Similarly, the retailer's maximum price has to be calculated by adding the percentage to "the price paid to the manufacturer or wholesaler by the first retailer."

ANCILLARY PROVISIONS

The Act of 1941 and the Orders made thereunder contain a number of provisions which are ancillary to the fixing and control of prices. The most important of these are—The Price Controlled Goods (Restriction of Resale) (No. 2) Order, 1942, made under Section 4 of the Act of 1941, which limits the number of wholesalers through whom price controlled goods may pass, and prohibits the resale of goods bought by retail unless in both instances the goods are resold at their cost price. The Price Controlled Goods (Invoices) Order, 1941, requires invoices containing certain information to be given for price controlled goods, and it is an offence to fail to furnish or to demand proper invoices, and to fail to keep purchase invoices or copies of sales invoices. Section 9 of the Act of 1941, provides that it is an offence to refuse to sell goods of which one has a stock, or to impose conditions upon the sale of such goods, except in the circumstances indicated in sub-section 2 of that section. The Price Control (Regulation of Disposal of Stocks) Act of 1943,

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enables the Board of Trade to issue licences permitting traders to restrict sales from stocks to particular classes of buyers, or otherwise in accordance with the terms of the licence. These licenses are issued to enable certain goods, e.g. perambulators, rubber boots, etc., to be sold to priority customers in accordance with the arrangements made by the Board of Trade.

The Acts of 1939 and 1941 also contain provisions relating to the procedure for the enforcement of the Acts and Orders made thereunder.

Practising accountants may be asked, from time to time, to advise clients on price controls. They should refer to the appropriate Statutory Rules and Orders for the time being in force for the details of these controls such as the definition of maximum prices, the treatment of delivery charges, etc.

Questions concerning the Prices of Goods Act, 1939, or the Orders made under the Goods and Services (Price Control) Act, 1941, are dealt with by the Local Price Regulation Committee, and other enquiries by the Board of Trade.

A special appendix has been prepared for the benefit of those accountants whose clients are required to calculate their maximum prices by reference to their costs of production and sale in accordance with the Regulations applied to manufacturers' maximum prices for utility clothing and certain other goods. (Appendix B, page 101.)

Food Control

(Ministry of Food)

I. INTRODUCTION : THE OBJECTIVES OF CONTROL

THE control of food prices in Great Britain has been undertaken as part of the general measures directed to prevent inflation ; in this context, therefore, it falls into place with the general financial policy of the nation during the war. In its positive aspect, however, it also falls into line with the nutritional policy which has been adopted in order to ensure that the poorest sections of the population should receive an adequate supply of the more essential foodstuffs. Price control, therefore, has not only been directed to the end of preventing increases in food prices, which might have had an inflationary result ; it has also in certain cases reduced prices below their pre-war level in order that the nutrition of the masses should be maintained at an adequate standard, and also so as to ensure that certain specified groups among the population, as for example, nursing mothers and children, should receive the special nourishment which they need. Only in so far as the safeguarding of the nation against inflation or of the individual against mal-nutrition has rendered it necessary has the Ministry been concerned with limiting the incomes of traders or manufacturers, either in an upward or a downward direction. The objectives of price policy have not included any attempt to rationalize the food trades, with a view to simplifying and cheapening distribution, except in certain specified directions, where the possibility of economising in petrol, rubber and manpower has been the predominant consideration. In general, it has been the aim of the Ministry so to shape its price policy that, as far as possible, the pre-war channels both of production and distribution can continue to operate. The reason for this has been two-fold. In the first place, a minimum of disturbance of the existing methods involves economy in administrative labour,

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which is of great importance in war-time ; in the second place it leaves traders as nearly as possible free to assume their normal activities when conditions of supply again become normal after the war.

In pursuit of this policy, the Ministry of Food has achieved a very much greater degree of stabilization in food prices than its predecessor was able to accomplish in the last war. Commencing with those foodstuffs which appear in the Cost of Living Index, control has been extended over the retail prices of nearly 90%, by value, of the whole range of foodstuffs. During the last war, the index of food prices rose by more than 100% and the prices of those foodstuffs not shown upon the Index probably rose to a considerably greater extent. On the other hand, since 1939 the Index of Food Prices has risen by only some 25%. Since 1941, when the policy of stabilizing the prices of all the main foodstuffs, whether appearing in the Cost of Living Index or not, was adopted, there has been a slight decline but a general stability in the Index. Moreover, the foodstuffs of the Index have risen much less than they did during the last war and indeed probably less than did those on the Index between 1914 and 1918. In addition specified classes of consumers can purchase certain foodstuffs at prices considerably below the pre-war level. The achievement of the Ministry may be measured by the general agreement that the standard of nutrition among the masses in Great Britain has shown no decline as compared with pre-war.

II. THE PRINCIPLES EMPLOYED IN PRICE CONTROL

In order to achieve these objectives, the Ministry has been confronted with the task of reconciling, on the one hand, retail prices which are low enough to avoid inflation or mal-nutrition among the poor, with, on the other hand, the prices which it must pay in order to obtain its requirements on the world market (with the exception, of course, of Lend/Lease supplies), or which are high enough to stimulate adequate home production, and also the costs of transport, processing and distribution. For these foods which are of the greatest importance from a nutritional standpoint, and particularly for those of them which appear in the Cost of Living Index, the starting point has been

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the appropriate retail price. After reasonable allowance has been made for the cost of transport and distribution, and after all possible measures have been undertaken to reduce these costs and to minimize buying prices, whether at home or abroad, the gap between the total cost of production plus distribution and the appropriate retail price has been filled by a subsidy. In the case of foodstuffs of lesser importance, where it has not been considered justifiable to pay a subsidy, prices are controlled, normally at each stage of production and distribution, in order to ensure that the quantity required is produced and distributed at the minimum cost.

The principles upon which maximum prices are fixed are simple, although not necessarily easy of application. Whenever a new maximum price is being considered or an existing one amended, the Ministry endeavours to ascertain the representative gross profit per unit ruling before the war, the extent to which the costs of the trade concerned have altered as a result of war-time conditions, and the margin, or gross profit, between the maximum prices set for each stage of distribution is arrived at by reference to these two considerations. Where the falling-off in turnover over a whole trade has been so great as to render the possibility of hardship and the resulting risk of a breakdown of the distributive machinery a matter of practical importance, this consideration also is given due weight. Circumstances, in which, owing to war conditions, material increases in turnover have substantially affected the overhead cost ratio, are also considered on the merits of each case.

It should be noted that this method does not ensure to the distributor the same percentage of profit on turnover as he earned before the war; normally the sum he receives per hundred weight handled has gone up, although expressed as a percentage of selling price it has gone down. In all possible cases the definition of distributors' margins in Orders as a percentage of selling price has been avoided, as it is not considered justifiable to allow distributors' profit to increase automatically wherever costs of production increase. Reference to pre-war percentage margins has also, as far as possible, been avoided when assessing "unit"

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margins under control, except in so far as wastage constitutes an important part of the distributors' expenses.

III. DIFFICULTIES OF APPLICATION

The application of these principles, however, is far from easy. In the majority of cases, the gross profits earned pre-war, by retailers in respect of any particular line of merchandise varied widely from place to place, and even as between different classes of shops within the same locality. Moreover, in some cases the practice of selling specific commodities at prices little in excess of their cost to the retailer was employed in order to attract custom. Turning to the wholesale trade the same difficulty is encountered, and is indeed of greater magnitude in those branches of the wholesale food trade where, before the war, the quantity rebate system operated, under which the price paid by the purchaser varied with the scale of his purchase, the merchant living on the difference between the price at which he purchased in bulk, and that at which he passed on smaller parcels to the secondary wholesaler or retailer. The "pre-war representative gross profit," therefore, is often the roughest of approximations.

Nor is the task of making allowance for changes in costs due to the war any easier. The burden of overhead costs has greatly increased in evacuation areas; greatly decreased in concentration areas. The retailer in particular has cut down his delivery services and shortened his hours of opening time; on the other hand he has had to cope with the intricacies of rationing and control with a depleted and frequently untrained staff. In any case, it is almost impossible to allocate the costs of a distributive business of any sort, and particularly of a retailer, as between the different lines handled. Therefore, when only some lines are controlled in price, the difficulty of measuring changes in cost is almost insuperable.

In practice the Ministry has usually found it wise to err on the side of generosity in the first period of price control, thereafter making such amendments in price orders as the profit position of the different types of traders concerned, as indicated by their collected trading accounts, seems to indicate as desirable. The Ministry's Costings Division is constantly reviewing the

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trading position of all the food trades, on the basis of the largest sample of accounts which, for administrative reasons, it is possible to handle.

It is inseparable from conditions of war-time scarcity that maximum prices imposed at levels necessarily high enough to enable some less efficient but still indispensable distributors to carry on, should allow the more able or fortunately placed to make profits which may, at times, verge upon the spectacular. Firms operating in favourable circumstances due to efficiency, location, or opportunities for buying cheaply, have found operation within the limits of maximum prices profitable, not on account of but in spite of price control, without which their profits might have been immeasurably greater. The Ministry has, however, attempted in many ways to minimize such windfall profits.

An important component of the final price of all foodstuffs, particularly in an importing country like Great Britain, consists of internal transport costs. The allowances incorporated in margins must be high enough to cover carriage to the more distant customers of the normal wholesaler. A number of expedients have therefore been adopted in order to reduce the profits which distributors would otherwise tend to make out of unexpended carriage allowances. With regard to home grown foodstuffs, produced in different areas within Great Britain, a method frequently employed has been to fix differential maximum prices for different parts of the country, those situated more remotely from the producing areas being correspondingly higher to allow for the greater cost of carriage. In respect of certain other foodstuffs also, areas such as the North of Scotland and the Scottish islands pay slightly higher prices to cover cost of carriage. Except when islands, or areas otherwise geographically distinct are concerned, great difficulty attaches to the de-limitation of zones within which differential prices obtain. Administrative difficulties, therefore, limit the extent to which this principle can be put into operation. An alternative method, which is suitable where the Government is the first owner of the foodstuff, is that the Ministry shall retain ownership as far down the chain of distribution as possible, releasing food to distributors

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in such proximity to their premises that any carriage allowance which they are permitted within maximum prices is so small that, even where it is not all spent, little possibility of making windfall profits arises.

The task of framing administrative measures designed to reduce excessive profits which arise not out of the objective circumstances in which traders are placed, but out of their different standards of efficiency is very much greater. As outlined below, an attempt has been made to follow this course in respect of certain types of food manufacture. With regard to the distributive trades, however, the efforts of the Ministry have been restricted to reducing the double profit earned by those retailers who have their own wholesale organization, and normally in peace time buy on the same terms as the wholesaler. This double profit, however, may be held to result from the performance of a double service and the Ministry's policy has not been altogether uniform ; in some cases multiple firms and other retailers, who before the war bought on the same terms as wholesalers, can continue to do so, while in others they buy at a differential price intermediate between the first-hand and wholesale prices.

SUMMARY

To summarize :—

- (a) Scarcity inevitably brings high profits to some, and any system of price control which is not designed to be completely ruthless to the less efficient can only limit windfall profits but cannot abolish them.
- (b) The main object of the Ministry of Food has been to play its part in protecting the individual consumer against high prices and the country against inflation.
- (c) It has attempted to perform this task with the minimum of administrative machinery, and with the minimum disturbance of the organization and customs of the food trades ; consequently, in certain branches of the food trades high profits have been earned ; it is doubtful, particularly in view of the incidence of E.P.T., whether the administrative difficulty and

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disturbance involved in completely eliminating them would have resulted in a net gain.

THE TECHNIQUE OF PRICE CONTROL AND THE MACHINERY EMPLOYED

It is the responsibility of each Commodity Division within the Ministry of Food, which in nearly all cases has been recruited largely from the trade concerned, to formulate schemes for the control of prices and distribution in accordance with the general line of policy determined at Ministerial or Cabinet level. It is, however, necessary to co-ordinate as far as practicable the control of prices and profits. While the structure of control for each different foodstuff is the direct, although not the final, responsibility of the Commodity Division concerned, centralized machinery exists for co-ordinating the policy adopted in connection with the rates of remuneration permitted to traders operating under control.

With very few exceptions, all proposals, therefore, which include provisions for controlling the remuneration of producers or distributors, except agricultural producers whose prices are determined interdepartmentally with Treasury and the Agricultural Departments, must be submitted for the approval of the Margins Committee of the Ministry of Food. This Committee is composed principally of Finance Directors, who are in charge of the financial arrangements of Commodity Divisions within the Ministry and who are experienced accountants; it also includes members with wide experience of Civil Service administration. The Committee is advised by the Ministry's General Trade Adviser, by the Director of Costings, by the Ministry's Advisers on Wholesale and Retail Trade and Manufactured Foods, and by an Adviser on Agricultural prices.

The Costings Division, under the control of the Director of Costings, constitutes the fact-finding machinery of the Ministry in financial matters. It collects and investigates on behalf of the Ministry financial evidence of immense value in determining appropriate rewards for service. In the case of manufacturers, or in such cases as it is possible for actual costs to be investigated, the Division endeavours by analysis of manufacturers' accounts

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to ascertain their cost of production per given unit before the War and their margin of profit on that particular unit before the War. The object is always to take a fair sample of the trade under consideration and definition of this is largely in the hands of the Commodity Divisions concerned. The latter are normally requested by Costings Division to submit a list of names of representative firms, together with the tonnage which each produced before the War. In this way it is possible for Costings Division to estimate how far the costs and the profits revealed by investigation are representative of the whole trade. The Costings investigation into current cost is carried out in accordance with normal accounting technique and is considered by the Margins Committee in the light of the principles outlined above. Where practicable the resultant nett profit arising from the adoption of the pre-war nett profit per unit is tested by reference to the return on capital employed to ensure that such return is reasonable in the circumstances.

In dealing with distributors' margins it is usually impossible for Costings Division to proceed on the basis of ascertaining the costs of distributing any one foodstuff, as almost all are dealt with by mixed businesses. The technique adopted is to ascertain in the gross margin, i.e. the difference between the buying and selling prices, of a number of representative firms dealing with the commodity in question before the War, and to adjust this figure in the light of variations in cost arising from War conditions. It will be seen, therefore, that the settlement of margins for distribution is on an entirely different basis from the settlement for those of manufacturers ; in the latter case actual costs are ascertained ; in the former, gross margins only. In the case where the distributors' service is different from that provided pre-war as is often the case, then remuneration on the pre-war basis will be inappropriate and the position has to be assessed on the facts as they now exist and as the result of bargaining with the trade concerned.

From time to time it becomes necessary to review the position of a trade in order to ascertain whether the profits being earned by manufacturer, wholesaler or retailer are appropriate. To obtain this information the normal method adopted by Costings

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Division is to obtain from the Trade Association concerned, or through Divisional Food Officers, the names of a number of traders, chosen carefully to ensure that they may be regarded as generally representative. Particular care is taken to ensure that firms operating in remote or sparsely-populated areas are included. These firms are invited to co-operate and the largest practicable number of traders are asked to supply trading accounts and balance sheets. These figures upon arrival are collated and in total reflect the general trading accounts of the industry or trade concerned. These reviews are constantly being revised, and their results constitute a valuable guide as to the general levels at which margins should be controlled.

Example 1. Butter.

Against the general background of the preceding paragraphs it is possible to outline the principal methods of price control employed. The problem of price control appears at its simplest where the product to be controlled is owned originally by the Government, is standardized, distributed as a ration, easily divisible and habitually sold by weight. Perhaps the best example is butter. Under contemporary war-time conditions the whole supply of butter is the property of the Ministry of Food, distributed through agents of the Ministry to wholesalers or multiples, distributed by retailers in conformity with rationing regulations and sold by weight ; all grades of butter have been abolished or are ignored, and one maximum price governs all sales of National Butter.

The Ministry selling price, at which sales ex cold store are made by the Ministry's agents, is uniform and incorporates an allowance for their remuneration. These agents are employed jointly as an operating War-time Association, which is paid at an agreed rate per cwt. of butter handled. After the costs of staff, premises and other charges have been met, the balance of the Association's earnings is distributed between the members of the Association on the basis of their shareholding, which depends upon their volume of business during a datum period.

Therefore wholesalers and retailers sell subject to maximum wholesale and retail prices. The maximum wholesale price is a

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“delivered” one, and the wholesaler bears the cost of carriage out of the difference between the uniform price at which he buys from the Ministry’s agents and the maximum wholesale price, below which he can sell at his discretion but which he cannot exceed. The retailer can make no extra charge for delivery; he also sells subject to a maximum retail price, but no obstacle is placed in his path if he wishes to sell below it.

Example 2. Bacon.

The principal difference between the technique of price control applied to butter and that applied to bacon is that in the case of bacon a price structure has been devised with the object of ensuring that all retailers pay the same price for bacon delivered to their shops, irrespective of the channels of wholesale distribution by which it reaches them and regardless of whether or not these channels are in joint ownership with the retail shop. Wholesalers sell on delivered terms at prescribed prices; bacon is the only commodity in respect of which the Ministry has laid down fixed wholesale prices instead of maxima. A system of surcharges and rebates results in wholesalers receiving a reduced margin on sales to secondary wholesalers and multiple shops (defined as groups of ten or more); secondary wholesalers receive the full wholesale margin on sales to retailers, and multiple shops receive, in addition to the retail margin, an allowance to cover expenses incurred when delivery is taken at their depots. Thus all retailers pay the same price, including shops belonging to multiple companies after their depot expenses have been paid; but the net payment made to the Ministry, which is the owner of the bacon at first hand, varies according to the channels of distribution employed.

Example 3. Meat.

The Ministry of Food is the sole importer of chilled and frozen meat and the sole purchaser at first hand of livestock for slaughtering. It remains the Ministry’s property down to the depot where bulk allocation is made, and the Ministry undertakes to deliver it free of charge to the retail butcher’s shop. Thus, the whole of the cost of transportation is borne by the Ministry,

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and averaged out between consumers wherever they may reside, thus enabling uniform maximum prices to be charged throughout the country. Butchers' meat as stated above, is distributed to the retailer by the Ministry, which charges it out at wholesale prices calculated to give the retailer, selling at the maximum retail price, an appropriate profit. The yield to the retail butcher, however, may be greatly altered by his cutting, as there are a large number of specified retail prices relating to different cuts. Consequently, if a skilful or unscrupulous butcher succeeds in obtaining from a side of meat a high proportion of high price cuts, he will be able to delight his customers by causing them to suppose that they are getting more than their ration, the ration being on a money's-worth basis, and increase his profits above the target which the difference between wholesale and maximum retail prices was designed to provide. As, however, the butcher is the one type of retailer who habitually handles one commodity only, a rise in profits in this trade is easily detected from trading accounts and the Ministry, while adhering to the target which it originally set itself, has increased wholesale selling prices while retaining the maximum retail schedules unaltered, in order to allow for the lessened wastage which butchers appear to suffer under war-time conditions. It has, moreover, in consultation with the trade, simplified the cuts and price lists, thus assisting the house-wife to check her purchase, and the butcher to carry on with a depleted staff.

Example 4. Margarine.

The control exercised over the retail prices of margarine is unique in that no price order exists. The manufacturers of the margarine, who operate on behalf of the Ministry of Food, mark the wrappers of the two grades with the appropriate retail price. Wholesale distribution of the margarine, which remains the property of the Ministry, is undertaken by a company formed for the purpose and thus distribution costs are pooled over the whole country, local distribution taking place from a very large number of warehouses situated at focal points throughout the country.

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Example 5. Potatoes.

The maximum price of potatoes was originally built up on the assumption that the bulk of supplies in most areas of Great Britain would come from the specialized growing areas ; separate maximum prices were specified for different areas mainly on the basis of their different distances from the main growing areas. This necessitated a fairly heavy allowance to be included in the distributors' margins for carriage, which permitted substantial profits to be made on the distribution of all those potatoes which were sold near to their point of distribution. Partly in order to remedy this, and partly because the increasing acreage of land put down to potatoes was deliberately spread as widely as possible over the country, the present maximum prices for potatoes are based on the assumption that the bulk of supplies in each area comes from sources relatively near at hand. In order to deal with the position at the end of the season, when only the specialized growing areas are likely to have any supplies left, it has been necessary for the Ministry to step in as first wholesaler and convey potatoes from the surplus to the deficiency areas when local supplies fail. (The margins in these areas would not bear the cost of carriage from the main growing districts). Thus the cost of distributing potatoes has been appreciably reduced and consumers in the areas most remote from the growing districts enjoy relatively lower prices as compared with the rest of the country than they would have enjoyed before the war.

Example 6. Fresh Fish.

The case of fresh fish presents an alternative solution to the problem of the carriage element in maximum prices. The Ministry bears the whole cost of transporting fish from the ports to the inland wholesalers, or to retailers buying directly from the ports. It recovers this cost by means of a levy which is charged to the port wholesaler and which he incorporated in his selling-on-price, thus recovering it from the consumer. This levy is higher in summer than in winter, thus allowing the retail price to remain the same throughout the year, while at the same time allowing the fisherman to receive a higher price in winter than in summer, which is justified by the great hardship and

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danger and smaller catches associated with winter fishing. The consumer in the areas most remote from the ports receives the maximum advantage from this measure which, in effect, pools the whole cost of the transportation of the fish and charges it equally to consumers wherever situated.

Example 7. Eggs.

The problem of price control with regard to eggs is inseparable from the problem of distribution. Eggs are produced very widely **all over the rural areas of Great Britain** and the major objective of Ministry of Food policy has been to secure adequate supplies for the urban areas. Therefore packing stations have been set up in all the producing areas and all producers in possession of more than a specified number of hens must deliver their eggs to a packing station. The packing station pays the producers a price which is somewhat in excess of the maximum retail price and the Ministry bears the loss involved.

Example 8. Tomatoes.

The principal tomato crop comes from a small number of specialized growing areas. In these areas a monopoly distribution **association has been formed** to supply deficiency areas. It has, **therefore**, been necessary to zone the country and to arrange for differential prices according to the distance of the area concerned from the nearest growing area which can provide adequate supplies. In addition, during the main crop season, sales from all holdings with more than a specified acreage must be made to tomato distributors' associations consisting, in each part of the country, of the associated local wholesalers. The associations then supply quotas of tomatoes to their wholesaler members, who in turn serve retailers on a quota basis.

Example 9. Green Vegetables.

In the case of green vegetables, it has been necessary for the first time to introduce as a universal practice, selling by weight. In order to render this measure effective, standards of trimming, related to the proportion of inedible or semi-edible matter which can be retained, have had to be set up. Green vegetables production is widely and irregularly distributed over the country. In

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peace time very wide local variations in price took place and prices fluctuated considerably from day to day under the pressure of rapidly maturing crops. This position continued at the much higher general price level which was operating during the war before the introduction of control. Therefore, while flat maximum growers' wholesale and retail prices were set up for green vegetables, these were expressly designed as ceiling prices, and the trade were requested to regard them as such and only to charge the maximum permitted prices in conditions of actual scarcity. This is perhaps the only case in which maximum prices have been set but yet have not, almost automatically, become the ruling prices. It was, however, necessary to set up machinery whereby Ministry-owned reserves of green vegetables could be moved into deficiency areas as local supplies failed, in order to obviate, as would otherwise have been necessary, the provision of maximum prices high enough to cover the cost of transportation from areas more distant than those normally supplying the local retail markets.

Example 10. Bread.

The National loaf is produced within the limitations of a fairly loose formula and the maximum retail prices which may be charged by the baker vary as between the bulk of the country, certain remote areas, and specified de-populated areas, mainly those affected by extensive war damage. These prices apply to bread either delivered or sold over the counter. In addition there is special provision for bread which is delivered to the premises of the buyer, if the latter are situated in any one of a series of specified sparsely populated areas. This measure, therefore, allows both for lessened output affecting the costs of the manufacturing process in some cases, for the greater distances between bakery and shop which may have to be covered in the more remote areas, and also for the specially high cost of delivering bread from the shop to the home in sparsely populated areas.

Example 11. Chocolate and Sugar Confectionery.

Another aspect of the general problem of price control is seen clearly in the case of the steps taken to lay down maximum prices for chocolate and sugar confectionery. The characteristic

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of this industry is the production of a very wide range of types and individual lines of products, not susceptible of close legal definition. In the last war the position was dealt with by two single maximum retail prices, one of 4/- per lb. for chocolates and one of 2/8d. for confectionery. The result was that the great bulk of production was sold at these maximum prices, irrespective of quality or reputation. This time voluntary and enforced simplification (and, in particular, drastic restrictions on labour per ton) greatly reduced the number of individual lines, but the number of manufacturers approached some 2,000 and the number of lines exceeded 10,000. It was desired to avoid the experience of the last war. At the same time :—

- (a) the problem of legal definition of even the remaining lines presented formidable problems ;
- (b) difficulty and hardship would have been caused, particularly in view of the specialized nature of much of the plant available, by any attempt to standardize completely the output of chocolate and confectionery ; and consumer choice would have been further limited ; and
- (c) price control of individual lines would have been a most formidable administrative task.

There had been established representative War Time Associations of manufacturers, with Ministry representation, and the policy was adopted of fixing by Order maximum retail prices for a limited number of "Product Groups," and requesting the Associations (as agents for the Ministry and through expert Price Control Committees) to classify members' products into their appropriate Product Group. No product could be sold in excess of a certain low price unless it was so classified, and identified right through to the consumer by price tickets showing its group and retail price. In fact (in conjunction with Production Control) over 95% of the whole of chocolate and sugar confectionery is sold at prices not exceeding 2/8d. per lb. to-day.

Agreement was then reached between manufacturers, wholesalers and retailers on a Trade Schedule fixing trade prices appropriate to these, the Ministry being informed and approving of this. In fact, these trade prices were closely related to what

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would have been the pre-war ratios to the current increased retail prices. It was made clear, however, that the Ministry did not accept the pre-war ratio as a principle, but accepted these prices as justifiable on their merits in the light of increased costs of operation and of the fact that the large reduction in weight of turnover would have involved hardship at pre-war rates per unit of volume. These maximum trade prices are enforced by the Associations and by individual firms. No Ministry or Association action is taken to enforce minimum trade prices, though in fact these do largely operate while a seller's market continues.

Example 12. Cake and Flour Confectionery.

In the case of cake and flour confectionery, although a maximum price order and not individual licences is operative, a somewhat similar method has been followed. The maximum price of cake, subject to a ceiling, is a multiple of the ingredient costs, no provision being made for any specific distributors' margin for the same reason that this course was taken in respect of bread. A maximum price has also been included in the Order at which any cake may be sold without reference to ingredient costs.

Example 13. Certain Canned Foods.

All the examples cited above deal with commodities controlled at a stage where distribution costs have to be included in the controlled price. In the case of several foodstuffs manufactured in this country the Ministry is now the sole purchaser, jointly for the War Office and for supplies destined for release to the civilian population. The Ministry has frequently been confronted with the necessity of employing the whole of the capacity of an industry in order to secure the required output, but, at the same time has found that a single purchasing price suitable to cover the costs of high-cost firms would provide unnecessarily high profits for the more efficient. In respect of several of the food trades thus situated the method has been adopted of paying manufacturers their actual costs, plus an agreed sum of profit per unit of output. This is never a percentage of cost, and

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therefore does not increase with increasing cost. Indeed, it is associated on the one hand with a ceiling price, and on the other with a bonus scheme, which increases the sum of profit per unit as costs fall, thus on the one hand protecting the Ministry and on the other hand rewarding the efficient and stimulating economy. This method, in many respects otherwise admirable, involves a great deal of accountancy work and there are, therefore, limits to its profitable employment.

SUMMARY OF EXAMPLES OF THE TECHNIQUE OF PRICE CONTROL

The preceding paragraphs outline typical expedients which have been adopted in order to deal with the differing circumstances surrounding the production and distribution of different commodities. It will be noted that, although the range is wide, a logical justification exists for the different pattern which control has assumed to meet the different circumstances of each set of cases. This difference is partly necessitated by physical differences as between separate foodstuffs ; partly by the organization of the trade concerned, and partly by the extent to which scarcity has been manifested, considered in relation to the nutritional importance of the food concerned.

THE TECHNIQUE OF SUBSIDIZATION

It was explained in the introduction how British food policy has involved the payment of subsidies in certain cases. The principal foodstuffs in respect of which subsidies are paid in Great Britain are wheat and rye, flour, bread ; meat, bacon and ham ; milk, milk products ; potatoes ; eggs ; sugar ; oatmeal ; certain animal feeding stuffs. The subsidies administered by the Ministry of Food usually take the form of a trading loss on Ministry-owned foodstuffs. In some cases, e.g. potatoes, producers are paid an acreage subsidy, in order to give a greater proportionate encouragement to the new or marginal grower. Only where, for various reasons, these methods are unnecessary or impracticable, has the more cumbrous machinery of obtaining returns from producers or traders and paying subsidies directly on this basis been adopted.

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Example 1. Wheat and Rye, Other Grains

In respect of wheat and rye of the 1943 crop, an acreage payment of £3 per acre was made by the Agricultural Departments. This was increased to £4 per acre for the 1944 crop, but in each case a downward adjustment of the fixed selling price was made, the principal object of the method of payment being to reduce the effect on returns to growers of differences in yields. The prices of barley and oats are fixed at maximum and minimum levels by Order and the Ministry incurs some losses in connection with drying, storage and re-sale when it enters the market to support the minimum prices by taking up temporary surpluses.

Example 2. Flour.

A subsidy is paid by the Ministry of Food to flour millers. The amount of this subsidy is measured by the difference between the proceeds of sales by a miller of flour and milling by-products, such as wheat feed, all of which are sold at prices fixed by Order, and his milling costs, including the cost of raw materials and profit based upon the average of certain specified pre-war years.

The raw materials employed in the manufacture of flour are purchased by the miller in the following manners :—

- (a) Imported wheat, from the Ministry, at the full cost to the Ministry which is the sole importer of wheat.
- (b) Home-grown wheat, at the prices for millable wheat prescribed.
- (c) Barley, from the Ministry at the full cost to the Ministry.
- (d) Oat products from the Ministry at the full cost to the Ministry which purchases oats from the grower and pays for conversion into oat products.
- (e) Rye, purchased by the miller from the grower or merchant at prices determined by Order.
- (f) Milk powder, from the Ministry at the full cost to the Ministry who purchase the dried milk.

As the sum of milling costs and raw materials is normally considerably in excess of millers' sales proceeds, the Ministry makes regular payments of rebates based on the millers' purchases

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of the raw materials referred to above. After taking these into account a further deficiency payment is made by the Ministry, bringing up the income of each miller to the level determined by the remuneration agreement under which the millers work. In some cases the effect of the rebates referred to above render it necessary to recover a surplus rather than meet a deficiency ; the cost to the Ministry of the flour subsidy is thus measured by the total of the rebates plus the excess of the deficiency payments over the surplus repayments.

Example 3. Bread.

In respect of bakers producing the National loaf, a subsidy payment on flour used for this purpose is made direct to the baker. The price of the flour thus diminished to the baker is already affected by the subsidies referred to in the previous paragraph. No subsidy is paid to the baker in respect of bread other than the National loaf or in respect of other bakehouse products.

Example 4. Meat.

The Ministry is the only buyer of the main types of fresh, frozen and canned meat, which alone are subsidized. The only method of subsidy employed is that of selling below the economic price. The pre-war fat-stock subsidy is now merged in this machinery.

Example 5. Bacon and Ham.

In the case of home killed pigs, the general practice is for the Ministry to purchase direct from the producers and simultaneously to sell to the curers at approximately the same price. A subsidy is paid to the curers to enable them, on the sale of their products, to earn a margin of profit fixed by the Ministry.

Example 6. Milk and Milk Products.

The structure of milk prices differs radically from that of other food prices. In England and Wales the Milk Marketing Board is the sole purchaser of milk from producers (except that used by producer-retailers for their own business) at prices approved by the Ministry of Agriculture. The Ministry

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of Food purchases the milk from the Board at prescribed prices at the first point of delivery and from that point directs it to where it is required. All milk is sold by the Ministry to distributors at one price. This is also the maximum price at which non-designated milk may be supplied to retailers. The retailer obtains his margin of profit out of the difference between the uniform price at which he buys milk and the maximum retail price at which he sells it to the consumer. All other distributive services (e.g. those of depot proprietor, wholesaler, etc.) are paid for direct by the Ministry. The proceeds of the sales of milk by the Ministry to distributors are insufficient to cover the cost of purchasing the milk from the Milk Marketing Board and paying quality premiums to producers, grants to producer-retailers and farmhouse cheesemakers, rebates to manufacturers, depot and wholesale remuneration and transport allowances, etc., to distributors and other charges. The deficiency is met by a Government subsidy.

In Scotland and Northern Ireland the milk is not purchased by the Ministry of Food, and in other respects the arrangements differ from those described above, but the proceeds of sales are insufficient to meet the cost of the milk, and other charges, and subsidies are required as in England and Wales.

Such milk products as butter, cheese, milk powder and condensed milk are purchased by the Ministry of Food at prices calculated from the milk utilized, the cost of manufacture and agreed rates of profit. The machinery of subsidization consists of the trading loss incurred, which may either consist of a differential price at which milk is purchased, or a loss on the finished product. In addition the Ministry pays directly a sales tax on all butter distributed in Northern Ireland, and pays a subsidy in the form of a deduction from the selling price of milk powder sold for animal feeding purposes.

Example 7. Potatoes.

(a) A payment of £10 per acre is made to any grower having not less than one acre of agricultural land and growing not less than one-tenth of an acre of potatoes. These payments are made direct to the grower on the basis of claims

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submitted by him. The machinery of verification is the County War Agricultural Executive Committees, who certify the claims.

(b) The price of Ware potatoes is stabilized to the consumer throughout the year. Fixed growers' prices are increased month by month throughout the season in order to cover the cost of progressive shrinkage and wastage. Therefore it is necessary each month to increase the subsidy, which is paid on a tonnage basis, in order to offset this increase in the growers' prices. This payment is made to the first buyers, merchants who purchase direct from the growers under licence or, alternatively, grower-salesman licensed to sell directly to retailers or the public. Claims are sent in month by month by all licensees, and a travelling audit staff tests the validity of a number of the claims submitted by examination of claimants' books and records.

(c) At the end of the season, when local supplies of potatoes, upon the distribution of which merchants' margins are based, have become exhausted, the Ministry becomes responsible for operating as the first buyer of potatoes, transporting them from surplus to deficiency areas, where it sells them for distribution. Where the Ministry itself supplies potatoes to distributing merchants, it sells at the subsidized price, thus in such cases making a trading loss approximating to the subsidy.

Example 8. Eggs: Egg Products.

In respect of home-produced eggs, packing stations buy eggs from producers, and sell them on to the Ministry's agents at the producer's price plus the margin agreed upon as appropriate to cover expenses of the packing station. The Ministry, through its agents, then sells to wholesalers, including wholesalers who are also packers, at a first-hand selling price considerably below that at which it has purchased from the packing station the trading loss involved constituting the subsidy. As a result the retail price of eggs is appreciably below the price which the producer obtains. Imported eggs are similarly subsidized by being sold at a loss by the Ministry, which is the

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sole importer. A trading loss is also incurred in regard to egg products from Canada and the Argentine.

Example 9. Sugar.

Imported raw sugar is sold by the Ministry of Food to refiners at a price somewhat less than the current average cost of raw sugar delivered to the refinery ; the selling-on price of raw sugar is related to a conventional price for refined sugar which makes provision not only for the cost to the refiners of the raw sugar but also for duty, refiner's costs and refiner's profits. Refined sugar for domestic consumption is sold at a price which is substantially less than this conventional price. The subsidy in this case corresponds to the trading loss incurred, in the first place by selling on the raw sugar to refiners at something less than cost price, and in the second place by selling refined sugar for domestic consumption at a price below that corresponding to the price paid by refiners for raw sugar. In the case of home produced sugar the Ministry pays the British Sugar Corporation a price for home grown raw and home grown refined sugar based on the actual cost of imported raw sugar and releases the sugar to the Corporation at the following prices, namely :—

- (a) raw sugar at the price paid by other refiners ;
- (b) refined sugar at the conventional price already referred

to.

Example 10. Oatmeal.

In respect of oatmeal and other oat products designed for human consumption, a subsidy on a tonnage basis is paid direct to the oat miller on the basis of his deliveries from his own milling.

Example 11. Animal Feedingstuffs.

(a) *Oilcakes and Meals.* . The responsible Division of the Ministry of Food takes over oilcakes and meals, which are manufactured by-products of the oil crushing industry, at cost, and disposes of them at prices pegged to a level fixed in 1940 ; the loss incurred constitutes the subsidy. It is also the sole importer of oilcakes and meal, which it buys at the lowest possible price and sells at identical prices.

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(b) Wheat by-products, barley meal, potato products, sugar beet pulp, and dried milk (mentioned above) are also subsidized by direct or indirect trading losses similar to those described above.

SUMMARY OF EXAMPLES OF THE TECHNIQUE OF SUBSIDIZATION

The above summary covers the vast majority of those foodstuffs which are subsidized by the British Ministry of Food. The position in respect of Lend/Lease supplies has not been dealt with as it does not fall within this category. In addition to the major subsidy measures described above, however, which may be considered to have originated either in the need to stabilize the cost of living, or in the requirements of priority classes, the Ministry undertook certain transport and certain storage charges in connection with measures designed to ensure that stocks of foodstuffs are de-centralized, in order to minimize the risk of loss by enemy action or to economize in transport. The total expenditure under this head was very much smaller than in the case of the stabilization subsidies, and it is perhaps adequate to mention their existence without examining the machinery involved.

EFFECTS ON THE COSTS OF DISTRIBUTION

The Ministry has not attempted any form of rationalization aimed at reducing the costs of distribution; it has imposed various restrictions on distribution and to a lesser extent on production, aimed at economizing in labour, petrol, rubber and certain foodstuffs and materials which are in short supply as a result of the war. Only as a secondary objective have these steps been designed to alter the pattern or improve the efficiency of the distributive trades with a view to reducing costs to the consumer, and their effect in terms of such economy has been relatively negligible.

On the contrary, it has been the object of the Ministry to maintain and employ, with the minimum of disruption, the pre-war channels of distribution. The object of this policy has been, as far as possible, to ensure that the pre-war pattern of

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distribution, and the activities of those operating within it. might be resumed as rapidly as possible when, after the conclusion of hostilities, the supply position renders such a step possible without risk of inflation or maldistribution.

The result of this policy has been that the costs of distributing food under wartime conditions have been slightly higher than they probably would have been had a more ruthless policy, ignoring the peace-time practice of individual traders, been followed. In respect of those traders appearing early in the chain of distribution, whose functions have been limited by State importation and rationed distribution, Wartime Associations have jointly undertaken the lessened wartime services required and been remunerated at a level which has allowed, in the majority of cases, a certain amount of profit to be distributed to the shareholders of all firms operating before the war, irrespective of whether their staff or premises have been selected as the operative units within the Wartime Association. At the wholesale and retail level of distribution, due regard has been had to the firm on the margin of profitable operation, and maximum prices have been set up which are, without doubt, unduly remunerative for all intra-marginal firms which the war-time "sellers market" has enabled to sell their goods at maximum prices.

In general, the reports of the Director of Costings, covering the main distributive food trades, indicate that the financial results are those which might have been anticipated. In broad general terms the rise in food prices has offset such declines in volume or changes in the composition of physical turnover as have taken place ; expenses in general have declined somewhat, and net profits have risen, although to a degree which indicates that, given the circumstances, control has been as efficient and as rigorous as possible within the limits of the policy which the Ministry has adopted. Moreover, it should be recollected that the position is under constant review and the general tendency has been to play for safety in the interests of even distribution in the initial stages of control, subsequently reducing margins as trading results afforded evidence of undue generosity. Reform,

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in any sense in which lessons significant for peace-time rationalisation might result, has been neither attempted nor achieved. One may, therefore, dismiss most of the wartime controls as almost completely irrelevant, either to assessing the need for rationalising the food distributive trades after the war, or to formulating concrete proposals directed to that end.

Premises and their Control

Part One

SHOP LICENSING CONTROL AND REGISTER OF WITHDRAWN TRADERS

THE Location of Retail Businesses Order provided that, except under the authority of a licence, no one might carry on at any premises a retail business in any of the goods covered by Part I of the Schedule to the Order (i.e. most non-food goods) or a business specified in Part II (i.e. hairdressing, beauty treatment, circulating libraries and auctioneering) unless he was carrying on a business in those goods or services at these premises in the period 1st December, 1940, to 23rd October, 1941. It will be noted that a licence was required by any person who wishes to transfer his existing business to new premises, or who acquires an existing business as a going concern.

This system of licensing ceased to have effect on 31st December, 1945, and the licensing of non-food shops is thus at an end. The following are extracts from the announcement of the President of the Board of Trade :—

“After careful consideration I have decided to bring the Location of Retail Businesses Order to an end and to close the Register of Withdrawn Traders on December 31st next.

“The House will remember that my right hon. friend, the Chancellor of the Exchequer, when he was at the Board of Trade, announced in December, 1943, that this licensing would be continued for a time after the end of the war in Europe and that, so long as it was continued, it would be used to facilitate the re-entry into retail trade of persons on the Register of Withdrawn Traders and the resettlement in civil life of selected disabled persons. It has not, I think, been fully appreciated by hon. members that this policy

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was designed to help ex-traders as a class and the war disabled, and not ex-Servicemen as such. According to my information a minority only of these ex-traders are in the Forces, many are civilians transferred to other work, while there are a number of branches of large businesses. On the other hand, there are many ex-Servicemen whose interests we all desire to regard, who have been prevented by the policy laid down from setting up in retail trade, because they are neither ex-traders nor war disabled.

“ Ex-traders as a class will have had six months in which to come forward in person or by proxy to take up their former businesses, and I consider that it would not be justifiable to hold the field for them any longer to the exclusion of ex-Servicemen who desire to enter the retail trade. Special steps will, however, be taken during the first three months of next year to continue to help the present priority class—ex-traders and war disabled persons. In particular we shall do what we can to assist them to get building licences where these are necessary for the minimum repairs and alterations to fit their premises for the business proposed. We will also issue coupon floats to the war disabled, in suitable cases, and to ex-traders who used to sell consumer goods which are now rationed and who desire to restart their businesses in the sale of rationed goods. For these purposes I am asking the Local Licensing Committees to consider any such applications for building licences and to make recommendations upon them to the Ministry of Works and also to advise the appropriate Department of the Board of Trade on the issue of coupon floats.

“ I must emphasise, however, that, while everything possible will be done to help the priority classes to get their shops sufficiently repaired to enable them to open their businesses during this period, there can be no absolute guarantee that labour and materials to carry out the actual work will be available in the period in any particular district. The grant of licences must be contingent upon other urgent demands for building labour in the area.”

PREMISES AND THEIR CONTROL

Part Two

MINISTRY OF WORKS RESTRICTIONS BUILDING AND CIVIL ENGINEERING WORK

Defence Regulation 56A provides that a building licence must be obtained from the Ministry of Works for any building or civil engineering work (except as in the paragraph below), provided that any person may without licence carry out on a single property during the period 1st August—31st January, 1946, work costing (a) £2 in any one month, and (b) in addition £10 at any time during the period.

N.B.—These allowances may be spent irrespective of any work carried out to the property during that period by the local authority or under licence.

Property means—

- (a) any property which is the subject of a separate Schedule “A” assessment or if not so assessed, is the subject of a rating valuation :
- (b) in the case of property which is neither assessed for Schedule “A” nor rated, the building or site on which the work is carried out.

Provided that where a property comprises a number of separate dwellings, e.g. block of flats, tenement, each dwelling is regarded as a separate property for the purpose of the Regulation and the rest of the building also a separate property.

N.B.—This means that the allowance referred to in the first paragraph above may be spent on each flat and in addition on the rest of the building, e.g. common staircase, passages, etc.

No licence is required for work carried out to a building occupied wholly or partly as a *private dwelling*, or carried out for the purpose of constructing, reconstructing or altering a private dwelling by labour for which *no payment* or other valuable consideration is made.

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N.B.—This means that an owner or occupier aided by his family or friends may carry out work to his house or build a house without licence. It will still be necessary for such owner or occupier to make application for any *controlled* materials he may require. The carrying out of work for which payment would subsequently be claimed from the War Damage Commission would not come within the scope of this paragraph.

A licence from the Ministry of Works is not required for

- (1) any work paid for in whole or in part by a Government Department :
- (2) work carried out by a local or Highway Authority, Public Utility Undertaking, Mining or Quarrying undertaking, a building operation undertaken by these bodies will, however, require authorization by the appropriate Government Department if the operation will cost more than £10.

WHERE TO APPLY FOR BUILDING LICENCES

To the LOCAL AUTHORITY of the area in which the work is proposed to be carried out if

- (1) the cost of the work does not exceed £100 : or
- (2) the application is for work to a house or flat, whatever the cost.

To the REGIONAL CONTROLLER OF MINISTRY OF SUPPLY OR MINISTRY OF AIRCRAFT PRODUCTION if the cost of the work exceeds £100 and the applicant is engaged wholly or mainly on work for either of those Departments.

(The Regional Controller will send the application to the Regional Licensing Officer with his recommendation.)

To the REGIONAL LICENSING OFFICER.

In all other cases. The addresses of the Regional Licensing Officers of the Ministry of Works are set out in the appendix below.

PREMISES AND THEIR CONTROL

APPENDIX

Regional Licensing Offices

REGIONAL LICENSING OFFICES

REGION	AREA COVERED	ADDRESS AND TELEPHONE NO.
1	Northumberland, Durham, Yorkshire (North Riding)	2, Sydenham Terrace, Newcastle Newcastle-on-Tyne. 23574
2	Yorkshire (East and West Ridings), York County Borough	Weetwood Chambers, Leeds 27311 93A, Albion Street Leeds.
3	Derbyshire, Notts, Lincolnshire, (including Holland, Kesteven and parts of Lindsey), Leicestershire, Rutland, Soke of Peterborough, Northants	Government Buildings, Nottingham Clifton Boulevard, 77733 Nottingham.
4	Hunts, Cambridgeshire, Norfolk, Suffolk, Bedfordshire, Isle of Ely, Essex and Herts (less the portions of each in No. 5 Region)	Shaftsbury Road, Cambridge Brooklands Avenue, 55206 Cambridge.
5	*London Civil Defence Region	51/54, Gracechurch Mansion House St., London, E.C.3. 9855
6	Oxfordshire, Bucks, Berks, Hants, Isle of Wight, Dorsetshire	Whitenights Road, Reading Earley, Reading. 61431
7	Gloucestershire, Wilts, Somerset, Devon, Cornwall	5/6, Cotham Lawn Road, Bristol 6. Bristol 36841
8	Wales and Monmouthshire	55/56, Park Place, Cardiff. Cardiff. 9017
9	Shropshire, Staffs, Warwickshire, Worcs, Herefordshire	Somerset House, Midland Temple Street, 6561 Birmingham.
10	Cumberland, Westmoreland, Lancs, Cheshire	Lancaster House, Central 80, Princess Street, 6931 Manchester. †Derby House, (Branch Office) Exchange Buildings, Liverpool Liverpool. Central 4131

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REGIONAL LICENSING OFFICES—*continued.*

REGION	AREA COVERED	ADDRESS AND TELEPHONE NO.
11	Scotland	9, George Street, Edinburgh Edinburgh 2. 34621 †16, Gordon Street, (Branch Office) Glasgow, C.1. City 6401
12	Kent and Surrey (less portions of each in Region 5), Sussex (East and West)	Forest Road, Tunbridge Wells Hawkenbury, 2780/8 Tunbridge Wells.

*Includes the County of London, Middlesex, parts of Essex, viz. : West Ham, East Ham, Waltham Holy Cross, Chingford, Chigwell, Dagenham, Wanstead and Woodford, Walthamstow Borough, Ilford, Leyton and Barking, Parts of Kent, viz. : Penge, Erith, Bexley, Crayford, Chislehurst and Sidcup, Orpington, Beckenham and Bromley : parts of Surrey, viz. : Croydon, Richmond, Barnes, Wimbledon, Kingston-on-Thames, Malden and Coombe, Surbiton, Mitcham, Sutton and Cheam, Epsom and Ewell, Carshalton, Merton and Morden, Beddington and Wallington, Coulsdon and Purley, Banstead, Esher ; and parts of Herts, viz. : Cheshunt, Barnet, East Barnet, Bushey and Elstree.

†Branch Office for forms of application and consultation with Regional Licensing Officer or representative.

Export Licensing

It has never been necessary to control the export of *all* goods. The list of goods requiring export licences has varied considerably during the war. The main effect of recent Export Control Orders has been to reduce this list substantially and further relaxations will be made as the supply position improves.

The present export licensing position is set out in the Export of Goods (Control) (No. 7) Order dated 12th September, 1945 (S.R. & O. 1945 No. 1146), as amended by the Export of Goods (Control) (No. 8) Order dated 20th December, 1945 (S.R. & O. 1945 No. 754). The main feature of the Order is the list of goods the export of which is prohibited to *all* destinations except under licence from the Board of Trade (E.L.D.). This list, classified into 18 groups of commodities, is contained in the First Schedule to the Order.

There are now no destinations to which the export of *all* goods is controlled. But Trading with the Enemy regulations prohibit trade with enemy or enemy occupied territories. No export licence is therefore required for the export of goods which do not appear in the First Schedule to the Order. But in the case of some goods other regulations affect manufacture, supply, etc., for export. In particular, the Machinery, Plant and Appliances (Consolidation) Order dated June 4th, 1945 (S.R. & O. 1945 No. 631) prohibits the supply for export as well as for home trade of any goods specified in the schedule thereto except under licence from the B.O.T. (I.M.(E) Department).

Copies of the above Orders can be obtained from H.M. Stationery Offices or through newsagents and booksellers. All amendments to these Orders are published as they occur in the B.O.T. Journal.

Exporters who wish to export any of the goods listed in the First Schedule to the Export Control Order must submit formal

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applications for export licences to the Export Licensing Department, B.O.T., 4, Fenchurch Avenue, London, E.C.3. Supplies of application forms may be obtained from the E.L.D. or from Custom Houses ; form C should be employed in the case of goods specified in Group 18 of the Schedule and Form E for all others. In general, no advance information is given as to whether export licences will or will not be granted for particular commodities and a warning is printed on the application form to the effect that the production of goods which need to be specially manufactured for a particular order should not be put in hand until an export licence has been granted.

It is usually necessary to obtain a separate licence for each transaction but bulk licences permitting the export of a specified quantity of goods to various customers and various destinations can be obtained in certain cases. General licences permitting the export of an unlimited quantity of certain classes of goods are sometimes granted to certain firms or organizations, e.g. wireless companies and oil companies, but this arrangement is of little interest to most exporters.

Ordinary licences are available for export either by shipment or parcel post. In the case of shipment the goods covered by the licence may be exported in instalments, the licence being produced to the Customs at each shipment for endorsement. In the case of parcel post despatches the licence is available for one posting only and is surrendered to the Post Office with the package or packages. Licences are normally valid for twelve months from the date of issue. If the licence expires before the goods are shipped application for renewal must be made to the E.L.D.

All exporters should be aware of the Exchange Control Regulations which affect all exports, whether under licence or not, to destinations outside the Sterling Area. In these cases it is necessary for the exporter to complete a form, known as a C.D. 3 form, at the time of exportation indicating how payment for the goods is to be made. The regulations are rather complex and vary according to the destination ; they are the responsibility of the Exchange Control of the Bank of England to whom enquiries can be made through any bank.

Financial Controls

Part One

SUMMARY OF EXCHANGE CONTROL AS ADMINISTERED IN THE UNITED KINGDOM AT THE 1st SEPTEMBER 1945

(THIS summary is intended to be a brief guide to present day exchange control but, of necessity, much detail has been omitted. It is emphasized that changes are frequently made as circumstances alter and reference to a bank is recommended if up-to-date information on any particular aspect is required).

GENERAL

The object of exchange control is to conserve gold and foreign exchange reserves and income and to ensure that they are used to the maximum national benefit. In the British system, the United Kingdom is associated with the Dominions (except Canada and Newfoundland), other parts of the Empire, territories under British mandate, British protectorates, Egypt, the Anglo-Egyptian Sudan, Iraq, Iceland and the Faroe Islands. These countries comprise the sterling area, all members of which have imposed similar systems of control within their own territories. Payments within the sterling area are, with few exceptions, completely free but regulations in force in all parts of the area aim at controlling payments to "non-residents," i.e., persons and institutions regarded as resident outside the sterling area for exchange control purposes.

Exchange control in the United Kingdom is administered by virtue of emergency powers under the Defence (Finance) Regulations. Day to day administration is carried out by the Bank of England and other banks in the United Kingdom on behalf of H.M. Treasury. No person other than those authorized

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to do so by the Treasury may deal in foreign currencies and gold, and dealings may only be conducted at official rates where these are applicable.

CURRENCY AND SECURITY RESTRICTIONS ON RESIDENTS OF THE UNITED KINGDOM

United Kingdom residents are required :—

- (i) To offer for sale to the Treasury their holdings of gold and of certain non-sterling area currencies : these are known as specified currencies, i.e., specified from time to time in the London, Edinburgh and Belfast Gazettes, and are as follows :—

Argentine Pesos	Netherlands West Indies
Brazilian Cruzeiros	Guilders
Canadian Dollars	Newfoundland Dollars
Czecho-slovak Crowns	Norwegian Kroner
Danish Kroner	Panamanian Dollars
Escudos	Philippine Pesos
Francs of France and French Empire, etc., territories	Pondicherry Rupees
Francs of Belgium, Luxembourg and Belgian Congo	Swedish Kroner
Netherlands Guilders	Syrian and Lebanese Pounds
	Swiss Francs
	United States Dollars
	Uruguayan Pesos.

Exemption from surrendering specified currencies is granted in approved cases, principally where the currencies are required to meet current expenses in connection with trade with non-sterling-area countries or the maintenance of a business or property outside the sterling area : in such cases the holder is required to account for the currency expended by submitting periodical returns. (For exemptions in the case of certain foreign nationals see note at the end of this Section).

- (ii) To register with the Bank of England certain non-sterling-area currency securities known as “ restricted securities ” and sterling securities of certain Empire countries of classes specified by the Treasury and to sell such securities to the Treasury against sterling when called upon to do so. Any

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securities which have not been sold to the Treasury may, with permission, be transferred between residents of the United Kingdom and, in certain cases, sold in markets outside the sterling area provided the full proceeds in specified currency are remitted to the United Kingdom. (For exemptions in the case of certain foreign nationals see note at the end of this Section).

- (iii) To account to the United Kingdom Control for gold, specified currencies and restricted securities held through personal holding or nominee companies incorporated outside the United Kingdom.

Some measure of control is also exercised over the assets of non-sterling-area subsidiaries of a resident trading concern, in order to ensure that funds surplus to the requirements of the business are remitted to the United Kingdom.

- (iv) To bring home within a given period and by prescribed methods the full value (less any authorized deductions) of exports to most countries outside the sterling area.
- (v) To secure, without delay, the payment of amounts due from outside the sterling area in specified currencies or in sterling.

Note :—Some measure of exemption from surrender of specified currencies and the registration of restricted securities is granted to certain nationals of non-sterling-area countries resident in the United Kingdom and to non-residents who have come to this country to join the Forces or to do work of national importance.

CONTROL OF PAYMENTS AND TRANSFERS OF ASSETS TO AND FROM NON-RESIDENTS

The following transactions are prohibited except with permission :—

- (i) The physical export of sterling bank notes, postal orders, gold, securities and foreign currency (i.e., any currencies other than sterling).

There are, however, exemptions which provide for small amounts of sterling Bank Notes and foreign currencies to be taken out of the United Kingdom without formality by travellers.

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- (ii) The making of any payment to a non-resident either in foreign currency or in sterling. Applications to make remittances to most countries outside the sterling area are normally approved for the following purposes :—
- (a) Settlement of current commercial debts.
 - (b) Travel expenses for bona fide business purposes.
 - (c) In fulfilment of certain contracts (e.g., insurance premia, licence and patent fees, etc.).
 - (d) Maintenance remittances on a limited scale where they have been established by long-standing practice or where justified by hardship.
 - (e) Income arising from investments in the United Kingdom (e.g. interest, dividends, rents and war-time profits of non-resident-owned United Kingdom companies (after deduction of U.K. taxes), etc.).
 - (f) Legacies from the estates of deceased residents of the United Kingdom.
 - (g) Capital repaid in accordance with the terms of a contract such as matured mortgage, drawn or matured securities, surrender or maturity value of life or endowment policies.
 - (h) Withdrawals from the accounts of non-residents with Building Societies in the United Kingdom.
- (Payments to Canada, Newfoundland, Argentina or Switzerland under categories (f), (g) and (h) are not allowed or are permitted on a restricted basis.)
- (iii) The transfer of securities to non-residents.
- (iv) The making of payments by residents to other residents either on behalf of non-residents (other than by a bank in the ordinary course of business) or associated with the receipt by any person (particularly a resident) of any consideration outside the sterling area ; the main object is to ensure that any payment within the sterling area effected on behalf of a non-resident is covered by a remittance to the sterling area from his country of residence or in funds available for transfer to that country and is not made out of funds belonging to a resident of the sterling area.

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- (v) Transfers to and from accounts of non-residents with persons other than banks.
- (vi) The settling of property or an interest therein on non-residents other than by Will.
- (vii) Agreements to do in the future what is now contrary to the Defence (Finance) Regulations.

RESTRICTIONS ON THE WITHDRAWAL BY NON-RESIDENTS OF CAPITAL ASSETS IN THE UNITED KINGDOM

In order mainly to prevent withdrawal by non-residents of pre-war capital invested in the United Kingdom the following measures have been introduced :—

- (i) The sale or transfer in the United Kingdom of securities by non-residents is prohibited except with permission.
- (ii) Sales in the United Kingdom by non-residents of assets other than securities are not restricted but permission is required for a resident of the sterling area to pay for them and the proceeds of such sales are “ blocked.” (The Treasury (or the Bank of England on its behalf) have the power, when dealing with applications to transfer sums to non-residents, to approve subject to the condition that payment is made only to a Blocked Sterling Account. When payment is so made the crediting of the blocked account constitutes a good discharge for the amount paid. Balances on Blocked Sterling Accounts are available only for investment in a specified list of British Government securities).

Certain forms of capital payments which are contractual obligations (e.g., maturity or redemption proceeds of sterling securities, legacies and maturity and surrender values of insurance policies) are, however, permitted to most countries although generally speaking not to Argentina, Canada, Newfoundland and Switzerland.

Certain items payable to non-residents (of whatever country) are subject to “ blocking ” and include :—

- (a) The proceeds of the sale of investments in real property.

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- (b) Funds invested before the outbreak of war in United Kingdom subsidiaries and branches of non-resident concerns.
- (c) Capital distribution on the sale or winding-up of companies—but a resident of any country but Canada, Newfoundland, Argentina or Switzerland would usually be allowed to have remitted to him his share in the winding-up of a company owned or controlled by United Kingdom residents.
- (d) Capital payments due under settlements created since 3rd September, 1939.

RESTRICTIONS ON THE TRANSFERABILITY OF STERLING AS BETWEEN NON-RESIDENTS

In order to limit as far as possible unofficial markets in sterling and thus help to maintain official rates, it has been found necessary to place restrictions on the uses to which non-residents may put their sterling funds. Generally speaking non-residents owned sterling (other than Blocked Sterling) is available only for payments in the sterling area and for transfer to another resident (e.g., a bank) of the owner's country of residence and cannot normally be otherwise disposed of without special permission. The restrictions have involved the designation of all non-resident banking accounts in the United Kingdom according to the country of residence of the owner.

PAYMENT ARRANGEMENTS BETWEEN THE STERLING AREA AND COUNTRIES OUTSIDE THE STERLING AREA

Approved remittances to countries outside the sterling area may in most cases be made either in the appropriate foreign currency or by the transfer of sterling to the account of a resident in the country concerned, but remittances to certain other countries, e.g., some South American countries, must be in sterling. For the purpose of obtaining exact information as to the appropriate method of payment to any particular foreign country, reference should be made to a bank.

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RESTRICTIONS ON THE IMPORT OF CURRENCIES, ETC.

The import into the United Kingdom of sterling bank notes and sterling bearer securities is prohibited except with permission. As an exception, bona fide travellers are allowed to bring in with them sterling bank notes not exceeding £10 in value.

The import of the notes of certain liberated territories on the Continent has also recently been prohibited. The restriction is subject to an exemption which permits bona fide travellers, but not members of the Armed Forces, to bring in such notes not exceeding £5 in value in aggregate.

Part Two

TRADING WITH THE ENEMY ACT, 1939, AND CONSEQUENTIAL ORDERS

The provisions of the Trading with the Enemy Act 1939 are directed to two different objects :—

- (a) to the questions arising out of the offence of “ Trading with the Enemy ” which is very widely defined, and
- (b) to the treatment of enemy property in the U.K.

It is an offence for any person to have commercial, financial or other intercourse or dealings with or for the benefit of an enemy, any assignment of a chose in action or transfer of a negotiable instrument by or on behalf of an enemy is rendered ineffective and no transfer by or allotment to an enemy of registered securities is permitted. Enemy property in the U.K. and debts due to enemies can only be dealt with in accordance with the Trading with the Enemy (Custodian) Order, 1939, (Statutory Rules and Orders 1939, No. 1198) made under the Act ; which has been amended. These provisions are directed towards the preservation of enemy property pending a Peace settlement and operate to prevent persons in this country dealing with the property of an enemy except under proper authority.

A brochure of Trading with the Enemy Legislation is published by the Stationery Office ; amending Orders are published from time to time in the Statutory Rules and Orders series as required.

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The main points with which Accountants are likely to be concerned will arise in the course of ordinary professional practice. The prohibitions on payments to an enemy (a term which under the Act applied not merely to persons in Germany, Japan, etc., but also to persons in the occupied countries, e.g. Holland, Norway, Denmark, etc.) still hold with certain exceptions. In the case of the occupied territories it is to be expected that the property controls will be relaxed or removed from time to time but until positive action is taken to free property from these controls, payments due to persons in those countries must still be made to the Custodian of Enemy Property and their property still remains subject to the control either of the Custodian (where the title has been vested in him) or of the Board of Trade. An Accountant may find it necessary to remind persons in the U.K. of these obligations.

Action taken by the Board of Trade or the Custodian which may affect an Accountant can arise in the following ways :—

- (a) through acting as liquidator under an order made by the Board of Trade to wind-up an enemy business ;
- (b) through being invited by the Custodian of Enemy Property to act as a director on the board of an enemy company ;
- (c) through being employed in a professional capacity in the valuation of an enemy business.

The functions of an Accountant employed in any of these ways do not differ in principle from those he would perform in the course of his practice if acting for a private client.

Part Three

CONTROL OF CAPITAL ISSUES, ETC.

At the outbreak of war it was announced by the Treasury that, until further notice and unless it falls within the classes of issues exempted by Treasury Order, no fresh issue of capital of whatever nature may be made without the consent of the Treasury. It was further stated that issues would be allowed only if it is shown to the satisfaction of the Treasury that they are advisable in the national interest.

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This control remains in force and will be found in Regulation 6 of the Defence (Finance) Regulations, from which it will be seen that issues of capital which come under the control are by no means confined to issues of stocks and shares by companies. Consent is also required to any public offer of securities for sale, or to the renewal, or postponement of the date of maturity of, any security maturing for repayment in the United Kingdom.

The control applies to any issues of securities (*whether for cash or otherwise*) or, in certain circumstances, to the raising of unsecured loans.

A wide range of transaction comes under this control, including the creation of any mortgage or charge, and various other instruments defined in the Regulation.

Regulation 8 obliges any person to furnish such information as may be required by the Treasury for the purpose of securing compliance with, or detecting evasion of, the Regulations. Regulation 9 refers to the heavy penalties which may be applied for failure to comply with the Regulations. Regulation 9B prohibits agreements to do at any future time any act which is unlawful under the Regulations. Regulation 10 (2) enables the Treasury to attach any conditions to the grant of consent to a capital issue.

A large measure of relief from the control is allowed under the Capital Issues Exemptions Orders, particularly under that of May 30th, 1945, which provides that Treasury consent is not required to capital issues and the other controlled transactions if the total thereof does not exceed £50,000 within twelve months. In the case of newly formed companies, however, the benefit of this exemption does not apply until a special direction conferring it has been received from the Treasury. There are a number of other important exemptions which are detailed in the Exemptions Orders, reference to which is given below. It should be specially noted however that issues by companies wholly or partly for the purpose of capitalizing profits or reserves, however small the amount, may not be made without prior Treasury consent, and such consent is at present very rarely given.

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In administering the capital issues control the Treasury is advised by the Capital Issues Committee, and it is customary for all applications to be addressed to the Secretary to the Capital Issues Committee, Treasury Chambers, Whitehall, London, S.W.1. The application must of course be made beforehand, and once the issue of a security or the creation of a mortgage is completed, it is too late to obtain Treasury consent. An offence under the Regulations will have been committed (unless the transaction is "exempt"). Forms for the guidance of applicants can be obtained from the Committee suited to the type of application proposed.

The Regulations and Orders to be referred to are the Defence (Finance) Regulations, 1939, the Capital Issues Exemptions Orders, 1941 (S.R. & O. No. 648), 1942, (S.R. & O. No. 2369), 1944 (S.R. & O. No. 1269) and 1945 (S.R. & O. No. 587).

Information as to the classes of issues to which consent will usually be given in the changed situation resulting from the end of the war, together with other information as to the principles of the control, are contained in an important Memorandum of Guidance to the Capital Issues Committee issued by the Treasury on 31st May, 1945 (Cmd. 6645). It does not deal with borrowings by Local Authorities which also come under the control.

It should be noted that the Regulations and Orders and the Memorandum just mentioned are all subject to change from time to time as the authorities may decide.

Part Four

FINANCIAL ASSISTANCE TO INDUSTRY FINANCE CORPORATION FOR INDUSTRY LTD. INDUSTRIAL AND COMMERCIAL FINANCE CORPORATION LTD.

The following statement was made by the Chancellor in the House of Commons on 23rd January, 1945 :—

"I am glad to be able to announce that I am informed by the Governor of the Bank of England that discussions, which have reached an advanced stage, have been taking place amongst the

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banking and financial communities of the country on the financial needs of industry in the post-war period.

“As a result, it is proposed to set up two Companies. One Company, to be named Finance Corporation for Industry Limited, is intended to have a capital of £25 million and borrowing powers of four times that amount. Thus the total resources of the Company would be £125 million. The capital is to be subscribed roughly in about equal proportions by consortiums of the Insurance Companies and the Investment Trust Companies and by the Bank of England. Arrangements are being made whereby loan capital is to be supplied to the Company by the Clearing Banks and the Scottish Banks. The purposes of this Company will be the provision of temporary or longer period finance for industrial businesses of the country with a view to their quick rehabilitation and development in the national interest, thereby assisting in the maintenance and increase of employment. The Company's primary purpose will be to provide finance and not itself to reorganize industry.

“The second and smaller Company, to be named the Industrial and Commercial Finance Corporation Limited, will have a capital of £15 million and borrowing powers of twice that amount. The capital will be subscribed by the Clearing and Scottish Banks together with a token subscription by the Bank of England and it is being arranged that the loan capital will be available from these Banks in the same proportions as they subscribe for the shares of the Company.

“The total resources of the Company will therefore be £45 million and the object will be to supply medium and long-term capital for small and medium sized businesses of the country in amounts, say, from £5,000 to £200,000; amounts of less than £5,000 can usually be procured in the ordinary way from bankers.

“I am informed that it is proposed that both these Companies will be managed as units in themselves, entirely independent from the Banks, with their own Boards of Directors and Permanent Staffs of men experienced in finance, commerce and industry. The larger Company will have the assistance of a special Industrial Advisory Panel. In order that the policy of

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the Company may conform to the general economic policy of the Government, the appropriate Government Departments will be kept informed of the nature and extent of all major developments being considered by the Company.

“I am also informed that the Companies intend to conduct their operations on the broadest possible basis consistent with reasonable commercial prudence and it is hoped they will thus become an important and stable feature in post-war financial machinery. These Companies will not in any way supersede existing sources for the supply of capital but be in addition thereto.

“These two Companies are being created on the initiative of the Banking, Insurance and Investment sections of the business communities of the country and in the opinion of His Majesty's Government they will constitute an important and helpful step in the post-war finance for industry. For these reasons I welcome these two projects as being directly in accord with and calculated to help in an important degree the Government policy of full employment.”

DEVELOPMENT AREAS

A Committee has also been appointed by the Treasury to advise them in giving financial assistance to industry under the provisions of Section 4 of the Distribution of Industry Act, 1945.

That Section allows the Treasury, in accordance with recommendations of an Advisory Committee and on certain conditions, to make annual grants or loans to industrial undertakings which are being carried on or which it is proposed to carry on in a Development Area and which are approved by the Board of Trade as complying with the requirements of the proper distribution of industry.

The Committee will be known as the “Development Areas Treasury Advisory Committee” and will be constituted as follows:—Sir Nigel L. Campbell (Chairman), Mr. Arthur Deakin, Mr. Edward de Stein, Mr. William L. Tregoning, Mr. George Wansbrough, Sir Cecil M. Weir, with Mr. J. Hyman (of the Treasury) as Secretary.

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The work of the Committee will be to examine applications and to make recommendations for financial assistance to be given by the Treasury to industrial undertakings established or to be established in a Development Area, to enable such undertakings to raise necessary capital.

Applications for assistance cannot be entertained unless the undertaking has already been approved by the Board of Trade as complying with the proper distribution of industry.

Before recommending that assistance be given by the Treasury, the Advisory Committee must be satisfied (1) that there are good prospects that the undertaking will ultimately be able to be carried on without further assistance under the Section, and (2) that the person carrying on the undertaking or proposing to do so cannot, for the time being, without the assistance under the Section, obtain the capital required for the purpose of the undertaking on the requisite terms.

The assistance given by the Treasury will normally be by way of annual grants and it is contemplated that the power to make loans (as distinct from grants) will only need to be exercised in exceptional circumstances.

Applications and other enquiries should be addressed as follows :—

- (1) As regards approval of the undertaking by the Board of Trade to the Assistant Secretary, Control of Factory and Storage Premises, Board of Trade, Millbank, London, S.W.1.
- (2) As regards financial assistance to the Secretary of the Committee at the Treasury, Great George Street, London, S.W.1.

Purchase Tax

GENERAL SCHEME OF THE TAX

PURCHASE Tax, which became operative as respects goods delivered on or after 21st October, 1940, applies to a wide variety of goods, including many types of:—

Garments and footwear (except Utility Goods).

Carpets.

China earthenware and glassware.

Furniture (except Utility furniture).

Electric Fittings.

Domestic Hardware and ironmongery.

Leather goods.

Photographic appliances.

Musical instruments.

Clocks and watches.

Toys and Games.

Jewellery.

Fancy goods and toilet requisites.

Office machinery.

Paper manufactures (with many exceptions).

Private motor cars and taxis.

The tax is charged when the goods pass from a *registered* person (generally the wholesaler) to an *unregistered* person (generally the retailer), the value on which tax is charged being usually but not invariably, *wholesale price*. This valuation is subject in many cases to the ruling of the Commissioners of Customs and Excise.

The basic rate of tax is 33½% but many goods (mainly of a luxury type) are charged at 100%, while others (e.g. pots and pans) are charged at the reduced rate of 16½%.

The tax is payable in the ordinary case by the *registered* manufacturer or wholesaler selling the goods to the *unregistered*

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retailer or transferring them to a separate retail branch or department of his business. The manufacturer or wholesaler is then entitled to increase his price to the retailer by the amount of the tax chargeable, which must be shown separately on the invoice.

REGISTRATION

On being registered, firms are given an official certificate and a registration number. They are enabled to deal free of tax with each other by quoting their registered numbers on their orders for goods, i.e., broadly, there is a tax-free market in chargeable goods between *registered* traders, but not between registered traders (e.g. wholesalers) and their unregistered customers (e.g. retailers), nor between unregistered suppliers and unregistered customers (e.g. two retailers, or a retailer and a consumer).

Every manufacturer and every wholesaler whose business includes the selling of chargeable goods is required to apply in writing for Purchase Tax registration with the Customs and Excise (City Gate House, Finsbury Square, London, E.C.2) unless his gross takings from sales of chargeable goods do not on the average exceed £500 per annum. Merchants engaged in foreign trade and manufacturers using chargeable material as materials for manufacture should also register, so as to enable them to obtain their materials free of tax from other registered firms (as explained in the above paragraph), or to export them, without incurring liability to tax.

Registration is unnecessary as respects firms with gross sales of chargeable goods under £500 per annum, firms which supply only services (e.g. laundries), and firms engaged only in repair work.

CHARGEABLE TRANSACTIONS

Registered traders are liable for tax on all chargeable goods which are :—

- delivered on sale to unregistered customers ;
- transferred to separate retail branches or departments ;
- appropriated to other purposes (except as materials or

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stock in the manufacturer's or wholesaler's business) e.g. which are taken from untaxed stock for use as office or business equipment or for private use.

Registered traders are not liable for tax on :—

Sales to other registered persons who “quote” their registration number (see above paragraph) ;

Sales to buyers overseas ;

Sales made to certain “Exempt” Government Departments, where the contract made it clear that the price was exclusive of tax and that the Department indemnifies the Contractor against such tax. This exemption does not apply to sub-contractors.

ACCOUNTING ARRANGEMENTS

The Commissioners have power to prescribe detailed accounts in any particular case, but all registered persons are required to keep such records of their transactions in chargeable goods as will enable them to compute the proper tax chargeable and periodically to pay it to the Commissioners. Business records must therefore be such as will enable the Commissioners' officers to satisfy themselves as to their completeness and accuracy. In general, the records required for this purpose are as follows :—

- (a) *Receipts.* All purchases of chargeable goods in this country or from abroad must be recorded. It must be readily ascertainable whether they were obtained tax-free under the registered number (see paragraph above), or tax-paid, and the seller's name and address, or the importation particulars as the case may be, must be traceable.
- (b) *Disposals.* All sales and other disposals of chargeable goods must be recorded, and it must be readily ascertainable whether they were sold tax-free, e.g. to another registered trader, or tax-paid. In addition as regards :—
 - (i) *Exports.* Where goods are exported or shipped as stores the exportation particulars and supporting documents must be available ;

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- (ii) *Tax-free sales.* Where goods are sold tax free (see paragraph above) to other registered firms, the written order, etc., on which the buyer's registered number is shown must be retained for production as a voucher. In the case of tax-free sales to "exempt" Government Departments (see paragraph above) the number of contract or order should be quoted against deliveries in the firm's accounts, and the contract or order must be available for inspection.
- (iii) *Taxable sales.* Copy-invoices and other documents must be available showing the description of the goods, the date of delivery, the value on which tax is calculated, and the rate and amount of tax payable ;
- (iv) *Transfers to branches and other taxable appropriations.* Full records must be kept ; and the description of the goods, the date of transfer or appropriation, the value on which tax is calculated and the rate and amount of tax payable must be shown or be readily ascertainable.

The foregoing requirements are subject to modification according to the circumstances of the case and the nature of the business carried on. In some cases, additional records may be necessary, e.g. stock records and production records. The records should be such as to permit of all materials and goods being readily traced through the business to their use in manufacture or ultimate disposal by sale or otherwise.

Where firms are in any doubt as to the form in which to keep their records of tax under Item (b) (iii) in the preceding paragraph, the Commissioners recommend the keeping of the following :—

- (1) A column in the Sales Record showing the tax payable on the sale. This must agree with the tax shown on the invoice.
- (2) A column in the Returns Inward Book showing tax credited in respect of goods returned and other allowable credits. This will be posted from the credit notes.

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- (3) The additional records referred to above should be totalled monthly or quarterly as may be convenient, and summarized in a separate Purchase Tax Account.

RETURNS

Returns are required in respect of each calendar quarter's trading : the return must be made and the tax paid within a month of the end of each quarter.

MISCELLANEOUS MATTERS

Certain concessions from tax may be allowed, subject normally to prior confirmation by the local Officer of Customs and Excise, e.g. :—

Trade samples supplied free in small quantities.

Credits for returned goods, or goods defective or lost in transit.

Cash discounts (the tax value being taken at the net cash price, after deduction of the discount rate which is open to all buyers).

Bad Debts (in certain circumstances only).

In all these matters, and others relating to the tax where there is any doubt, traders are strongly recommended in their own interests to seek the advice of their local Officer of Customs and Excise.

If goods are not sold at a price free delivered to the Buyer's premises, the cost of delivery must be added to the price when calculating the tax value.

All chargeable goods imported from abroad are liable to tax on the same basis of value as home produced goods.

FURTHER INFORMATION

The following Notices by the Commissioners of Customs and Excise describe in detail the points summarized above :—

Notice No. 77 General Guide to Purchase Tax.

78 Schedule of Goods chargeable with Tax.

79 Determination of Wholesale Value.

79A Valuation and Minimum Prices.

They are obtainable free from Section 20, Secretaries Office, H.M. Customs and Excise, City Gate House, 39/45, Finsbury Square, London, E.C.2.

War Damage Insurance

WAR Damage Insurance has been administered under several schemes, namely :—

- (a) The Commodity Insurance Scheme, covering *business stocks*.
- (b) The Business Scheme, covering *plant and general equipment*.
- (c) The Private Chattels Scheme, covering *household furniture, clothing and other personal effects*.
- (d) The Land and Buildings Scheme.

The first three Schemes have been administered by the Board of Trade (Romney House, Tufton Street, S.W.1) with the insurance companies acting as its agents and the last mentioned by the War Damage Commission (Devonshire House, W.1).

THE COMMODITY INSURANCE SCHEME (Stocks)

Under the War Risks Insurance Act, 1939, (Part II), the Board of Trade was authorized to insure against King's enemy risks goods held for sale or supply under contracts of work, labour and materials, i.e. stock and work-in-progress. The Scheme commenced on 3rd September, 1939. The Board was also authorized to insure certain interests which traders have in goods in their possession, although they might not be the owners of them. Insurance has been compulsory for stocks over a certain value ; below that sum, insurance was voluntary. The premiums were allowable as deductions for tax purposes.

THE BUSINESS SCHEME (Plant, etc.)

The War Damage Act, 1943, (Part II) provided, under what is termed the Business Scheme, insurance against war damage of goods which, in general, were not covered by the

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Commodities Scheme summarized above, i.e. it covered plant, machinery and the general equipment of a manufacturer or trader. It also covered all the business goods of a farmer, as well as the livestock and agricultural stock produced by him, while still in his possession. Insurance under the Scheme has been compulsory in the case of goods valued above a prescribed figure ; under that figure, goods have been insurable on a voluntary basis, as was also the case with a number of categories of goods, irrespective of value. The premiums were not allowable as deductions for tax purposes.

THE PRIVATE CHATTELS SCHEME (Household Furniture and personal effects)

Under the War Damage Act, 1943, (Part II) certain cover was provided to householders and others, free of cost, while additional cover could be obtained if desired on a voluntary basis.

THE LAND AND BUILDING SCHEME

This Scheme differs in many respects from those described above and attention is drawn to the following points :—

- (a) Under the War Damage Acts, 1941, and 1943, provision was made whereby “contributions” were paid by all owners of land and buildings in the United Kingdom and that out of the fund so accumulated (supplemented by payments from the Exchequer) payments are to be made to owners whose property has been damaged or destroyed by enemy action. The Scheme is strictly not an Insurance Scheme.
- (b) It is administered not by the Board of Trade but by the War Damage Commission.
- (c) Contributions (which were collected through the Collector of Taxes) were normally based on the Schedule “A” Assessment and were payable in five annual instalments due on July 1st of each of the years 1941/45. It was estimated that contributions would realize £200,000,000, and the Government undertook to provide, if necessary, a like sum from the Exchequer.

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The Government has announced that though net receipts fall short of half the expected payments it has decided not to increase the number of contributions. The contributions are treated as capital outgoings, e.g. they are not deductible expenses for the purposes of Income Tax, N.D.C. or E.P.T., and they are also treated as capital expenses for Executorship purposes.

- (d) Where a property is mortgaged, the mortgagee can be called on to pay a proportion of the War Damage Contribution, provided :—

That the mortgage was created in connection with the acquisition or improvement of the contributory property or in substitution for such mortgage.

That the mortgage outstanding was at least one-third of the purchase price.

That the contributory property was used for residential or agricultural purposes.

That the contributory value must not exceed £150 in the case of residential premises or £500 in the case of agricultural land and buildings.

If these conditions are satisfied, the Mortgagor is entitled to be indemnified by the mortgagee to the following extent :—

<i>Mortgage at the relevant date not exceeding :</i>	<i>Mortgagee required to contribute towards War Damage Contribution :</i>
One-half of Purchase Price.	One-sixth.
Two-thirds.	One-third.
Three-quarters.	One-half.
Over three-quarters.	Two-thirds.

There are also provisions whereby in certain cases a Lessor can be called upon to contribute.

PAYMENTS FOR WAR DAMAGE (Land and Buildings)

There are three kinds of payments which may be made in respect of War Damage to land and buildings, namely :—

- (a) Cost of Works payments, i.e. payments made in respect of works of repair executed to make good War Damage.

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This payment is calculated by reference to the actual costs of the works provided that the works and the costs are reasonable.

- (b) Value payments where it is not practicable or in the public interest that the property should be repaired. In this case, the payment will represent the diminution in value of the hereditaments due to War Damage, namely the difference between its value before the War Damage and after damage. Subject to any arrangements which may later be made by the Treasury or Parliament, it is calculated by reference to prices ruling on March 31st, 1939.
- (c) A temporary works payment. This is a payment in respect of temporary repairs reasonably executed to deal with War Damage.

A cost of works payment will normally be made to the person who has had the work carried out and has made himself liable for payment, provided that any necessary Licences and Consents have been obtained. In the case of a value payment as regards freehold property, the whole payment goes to the freeholder : if, however, the property has been leased for more than seven years (and not mortgaged), the payment is to be divided between the freeholder and the leaseholder, in accordance with their respective interests : if the property is mortgaged, the payment goes to the mortgagee who passes on any balance to the mortgagor.

As regards the sale of damaged property, any person who is considering whether to sell his damaged property should bear closely in mind the effect of a sale on his right to receive a payment under the War Damage Act. If a Cost of Works Payment is appropriate, the payment can only be made to the person who actually incurs the cost of repair. If therefore the property is sold before the damage is repaired, the buyer and not the seller will be entitled to receive the war damage payment. If a Value Payment is appropriate, the Value Payment will be payable to the person or persons who had proprietary interests at the date of damage, that is, the seller, and not the buyer. If the seller wishes to transfer the right to receive the Value Payment to the

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buyer, it is necessary for him to get the written approval of the Commission.

FURTHER INFORMATION as to War Damage to land and buildings may be obtained from the following Pamphlets :—

War Damage to Land and Buildings (Form C1A)	Price 1d.
War Damage Commission Practice Notes	„ 9d.
War Damage Commission Practice Notes (and Series)	„ 2d.
The Churches and War Damage	„ 4d.

Liabilities Adjustment Procedure

THE Liabilities (War-time Adjustment) Acts 1941 and 1944 are intended to help individuals, firms, and private limited companies, referred to as debtors, who are in actual or prospective financial difficulties through war circumstances, by preserving their homes, businesses, and other assets from forced realization, and by keeping them in business or in a position to restart business when the situation is more propitious.

The help afforded enables a general settlement of a debtor's affairs to be reached on a reasonable and equitable basis appropriate to the circumstances of the case. The idea is not to grant a moratorium but to effect a comprehensive adjustment and settlement. Public funds are not available for the purpose and each case, therefore, must be dealt with within itself.

There are two methods by which this may be done, namely :—

- (a) a Scheme of Arrangement arrived at with the help and approval of a Liabilities Adjustment Officer, usually known as the Adjustment Officer, appointed by the Lord Chancellor.
- (b) a Liabilities Adjustment Order, generally called an Adjustment Order, made by the Court.

A Scheme of Arrangement may be carried out without reference to the Court and such a course, by conciliation and negotiation, is frequently adopted particularly in small cases. The Scheme may provide for the composition or postponement of debts, for the management of the debtor's property or business, or for the realization, assignment, or charging of part or whole of the debtor's property in favour of the creditors.

The Scheme is submitted to the creditors and if accepted by a majority in number and value may be approved by the Adjustment Officer and thereupon it becomes binding upon the

LIABILITIES ADJUSTMENT PROCEDURE

debtor and upon the creditors who have provable debts. A non-assenting creditor may appeal to the Court against the Scheme on the grounds that it is inequitable and unreasonable. Creditors are required to prove their debts in somewhat similar form as in bankruptcy and proofs of debt must be lodged by a specified date or they may be rejected as out of time. Claims for rates, taxes, etc., which would receive preferential treatment in bankruptcy rank only as ordinary debts.

An application to the Adjustment Officer for his advice and assistance is made by the debtor but in the case of a private limited company a special resolution within the meaning of the Companies Act has first to be passed authorizing the application to be made. The Adjustment Officer will consider the position and communicate with the creditors, sending to them the necessary information and forms, and may convene a meeting of Creditors if it is deemed necessary or desirable.

An Adjustment Order, preceded by a Protection Order, made by the Court becomes necessary when the matter cannot be dealt with effectively under a Scheme or when the protection of the Court and the benefits of the special powers of the Court are required.

A Protection Order stays any proceedings against the debtor or his property in respect of any provable debt, and any proceedings against the debtor for the recovery of possession of land or of goods let under a hire-purchase agreement.

An Adjustment Order may afford specific relief in respect of accrued debts and of future liabilities arising out of the obligation already undertaken. The Court has wide powers and the kinds of relief which may be granted to a debtor are as follows :—

- (a) reduction of accrued debt :
- (b) postponement of payment of debt :
- (c) postponement of realization of assets :
- (d) disclaimer of onerous leases, contracts or other property :
- (e) reduction of rent down to the lettable value of the premises if the lettable value has fallen as a result of war circumstances :

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- (f) vesting in the debtor, of goods held by him on hire-purchase on payment of less than the hire-purchase price if he has paid sums amounting to the value of the goods at the date of the adjustment Order.
- (g) reduction of the rate of mortgage interest down to the net annual value, that is the net annual profits which, in the opinion of the Court, the property could reasonably be expected to produce.
- (h) postponement of re-payment of mortgage debts.

A debtor may apply to the Court for a Protection Order and an Adjustment Order whether or not he has sought the assistance of the Adjustment Officer, and a creditor who has a provable debt may apply in a case where the debtor has been granted relief under section one of the Courts (Emergency Powers) Act. On receiving an application the Court almost invariably refers the matter to the Adjustment Officer for investigation and report and the proposals submitted by him are considered by the Court on the making of the Order.

A person who owes a debt referred to in paragraph one of regulation four of the Defence (Evacuated Areas) Regulation 1940, whereby a moratorium is granted in respect of rents, rates, and other certain liabilities of evacuated persons, may apply to an Adjustment Officer for advice and assistance or to the Court, and the settlement of the debt may be arranged by a Scheme or Adjustment Order.

When the debtor has carried out the terms of a Scheme of Arrangement or of an Adjustment Order he may be granted his discharge and in the case of an Adjustment Order the Court may order that certain reliefs shall still continue.

Adjustment proceedings are administered with as little publicity as possible. Excepting for the publication in the *London Gazette* of Protection Orders, Adjustment Orders, and Orders of Discharge there is no advertisement. Proceedings before an Adjustment Officer are in private and Court proceedings are in chambers. Nothing done by a debtor for the purpose of taking advantage of any provisions of the Adjustment Acts is an act of bankruptcy or produces any bankruptcy disqualification.

LIABILITIES ADJUSTMENT PROCEDURE

Liabilities Adjustment Officers have been appointed for various areas and the following is a list of their addresses and names :—

Birmingham.	Rooms 22-23, County Buildings, Corporation Street, Birmingham.	F. C. Ormrod.
Boston.	30 Market Place, Boston.	F. L. Oldham.
Brighton.	20, Princes Street, Old Steine, Brighton.	I. K. Fraser.
Bristol.	3, Priory Road, Bristol, 8.	F. A. Webber, O.B.E.
Canterbury.	“Winton,” 42, New Dover Road, Canterbury.	F. C. Wells.
Cardiff.	First Floor, 4, Dumfries Place, Cardiff.	Sir Frederick Alban.
Leeds.	Third Floor, Cabinet Chambers, Lower Basinghall Street, 46-47, Boar Lane, Leeds.	R. E. Nutt.
Liverpool.	78, Rodney Street, Liverpool.	J. Allcorn.
London (Central).	Hanover House, 73-78, High Holborn, W.C.1.	D. Freeman Coutts.
London (West).	25, Haven Green, Ealing, W.5.	D. H. Evans.
London (South)	13, Dingwall Road, Croydon, Surrey.	C. W. Bird.
Manchester.	Rooms 45-51, Atlantic Chambers, 7, Brazennose Street, Manchester.	J. Allcorn.
Neath.	24, Queen Street, Neath.	G. F. Lloyd.

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Newcastle-upon-Tyne.	Norfolk House, 90, Grey Street, Newcastle-upon-Tyne.	A. B. Thompson.
Norwich.	46, Prince of Wales Road, Norwich.	C. B. L. Prior.
Plymouth.	9, St. Lawrence Road, Plymouth.	D. F. Nash.
Scarborough.	Pavilion Chambers, 2, Pavilion Terrace, Scarborough.	J. D. Mumby.
Southampton.	18, Archers Road, Southampton.	B. Chilton.

In Scotland, the provisions of the Liabilities (Wartime Adjustment) (Scotland) Act, 1945, apply, the practice being **very** similar except as regards Court Procedure.

Appendix A

SOLICITORS' ACCOUNTS RULES, 1945 AND SOLICITORS' TRUST ACCOUNTS RULES, 1945

FROM 1st January, 1945, the Solicitors' Accounts Rules, 1935, were replaced by the Solicitors' Accounts Rules, 1945. On that date also, an entirely new set of rules known as the Solicitors' Trust Accounts Rules, 1945, came into force.

The Solicitors' Accounts Rules, 1935, related only to monies dealt with by a solicitor in his capacity as solicitor and not to monies received by him otherwise than in connection with his practice. Under Section 18 of the Solicitors' Act, 1941, however, the Council of the Law Society have been placed under an obligation to make rules in respect of certain trust monies dealt with by solicitors.

When Section 1 of the Solicitors' Act, 1941, which will require solicitors to deliver annually accountants' certificates as to their compliance with the Solicitors' Accounts Rules, comes into force, the rules will have to be construed constantly by the accountants who will be asked to give such certificates.

No Rules can prevent deliberate default in relation to clients' monies. The main object of any Solicitors' Accounts Rules is to avoid the possibility of a solicitor getting into financial difficulties as regards clients' monies owing to the confusion which is liable to occur if a solicitor is entitled to deal with his own monies and his clients' monies through a single bank account. The old Rules have, in the Council's view, been successful in attaining this object, since, on the one hand, confusion between the solicitors' own monies and those of his clients is virtually impossible if the Rules are observed, while on the other hand, any ordinary system of book-keeping can be used under them and no undue burden of accountancy is laid on the profession.

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The underlying objects of both the old and the new Solicitors' Accounts Rules are :—

- (1) To require a solicitor to keep clients' money separate from his own money, and
- (2) To ensure that a solicitor keeps adequate records of his transactions so that his books at all times show clearly the money which he has received and paid and the balance, if any, which he still holds on account of each of his clients, and so that the money of each client is clearly distinguished from the money of any other client and also from any other money passing through the solicitor's accounts.

The broad effect of the new Solicitor's Accounts Rules and the Solicitors' Trust Accounts Rules read together is that money which is received by a solicitor and which does not belong to him :—

- (a) Must be dealt with through his client account, if he receives it in connection with his practice,
- (b) Must be dealt with either through his client account or a separate trust bank account opened for the particular trust, if it is trust money subject to a trust of which the solicitor is sole trustee or co-trustee only with a partner, clerk or servant of his, or with more than one of such persons,
- (c) May be dealt with through his client account, if it is subject to any other trust of which he is a trustee.

It will be found upon consideration of the new Solicitors' Accounts Rules that their practical effect will not be very different from that of the old Rules.

Appendix B

BOARD OF TRADE

THE CALCULATION OF MAXIMUM PRICES BY REFERENCE TO THE MANUFACTURER'S COSTS OF PRODUCTION AND SALE

INTRODUCTION

MANUFACTURERS of various goods are required to calculate the maximum prices which they may charge for those goods by reference to their costs of production and sale together with maximum profit margins fixed as a percentage calculated on those costs. For some goods these prices are subject to over-riding maxima ("ceiling prices"). Goods will generally be the subjects of contracts of sale before costs are capable of ascertainment, and selling prices may have to be fixed before the goods are produced. Therefore, manufacturers will usually find it necessary to calculate their maximum prices at the beginning of a suitable "period of fixation" by estimating in advance what their costs will be for that period. In doing so they should take account of factors which will decrease unit costs over a period (e.g. increases in supplies of materials, additional labour, etc.) and conversely they may also take account of any other factors likely to increase unit costs, or affect decreases in unit costs.

GENERAL PROCEDURE

The general procedure which most manufacturers should adopt may therefore be summarized as follows :—

At the beginning of the "period of fixation."

- (i) Determine some suitable period of fixation for which the prices of the goods are to be fixed.
- (ii) Estimate the volume of production during the period of fixation, having regard to all the information, including the planned production programmes and known supplies of materials and labour.
- (iii) Estimate by reference to all the information then available, the material and direct labour costs of producing that volume, and complete the cost estimates of each article in respect of materials and direct labour.

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- (iv) Prepare a schedule of estimated total overheads (subdivided as necessary between cost of production and cost of sale) which will be incurred during the period of fixation in accordance with the schedule of "allowable" costs.
- (v) Calculate the overhead recovery rates.
- (vi) Complete the cost estimates for the individual articles.

During the "period of fixation."

- (vii) Test the accuracy of the cost estimates as frequently as possible and adjust selling prices if any significant errors are revealed.

At the end of the "period of fixation."

- (viii) Check the selling prices by reference to ascertained costs, and use the information so obtained as a guide to see that the selling prices will not exceed the maximum prices in the next period.

PERIOD OF FIXATION

In choosing this period it will be necessary to consider the circumstances of the individual business, but normally it should be of not less than three months or more than six months.

ESTIMATES OF PRODUCTION

These estimates are required primarily to calculate the appropriate overhead recovery rates. In present conditions the volume of production will depend on the available materials and labour rather than on potential sales. These estimates of production do not rule out the introduction of new styles during the period of fixation. It should be possible to plan the greater part of the production with reasonable accuracy at the beginning of the period of fixation, and the introduction of new styles may not significantly affect overhead recovery rates based on direct labour, or machine-hour rates, which subject to special considerations in individual cases may remain unaltered. Overhead recovery rates based on prime cost may, however, be affected.

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COSTS OF MATERIALS AND LABOUR

These are technical matters and the methods of estimating these costs will depend on the nature of the industry. The quantities of materials required may be determined from samples, but the costs of materials and labour included in selling prices should take account of the methods of manufacture which will be used when the article is in full production.

DIVISION OF OVERHEAD EXPENSES, AND ALLOCATION OF OVERHEAD EXPENSES TO DIFFERENT PRODUCTS

The total overhead expenses which will be incurred during the period of fixation will normally be estimated on the basis of the overheads as ascertained for the preceding period, adjusted in respect of known variations and conditions likely to obtain during the current period. The expenses which may be included are set out in the Fourth Schedule to the Apparel and Textiles Order or the corresponding Schedule of the relevant Maximum Price Order (see page 00).

The methods for recovering overhead expenses should be such that each product bears its appropriate share, and should take account of the various activities of the business, which may include :—

- (a) Production in manufacturer's own factory of both utility and non-utility goods,
- (b) Production of utility or non-utility goods by out-workers,
- (c) Government contracts,
- (d) Exports, and
- (e) Wholesaling or retailing goods bought from other manufacturers or other wholesalers.

The proper allocation of overhead expenses between the various activities may be achieved :—

- (a) By the method of calculating the overhead recovery rate,
- (b) By a direct allocation of total overhead expenses between the various activities, or
- (c) By a combination of (a) and (b).

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Thus, if the direct labour on Government contracts is £50,000
and the direct labour on civilian production is 75,000

giving a total of £125,000 ;

and the overheads common to Government contracts
and civilian production are £80,000

the overheads peculiar to Government contracts are 10,000

the overheads peculiar to civilian production are 25,000

the total overheads being £115,000

then the overhead recovery rate for Government

contracts is $\frac{80,000}{125,000} = 64\%$

plus $\frac{10,000}{50,000} = 20\%$

giving a total of 84% of
direct labour

and the overhead recovery rate for civilian
production is

64%

plus $\frac{25,000}{75,000} = 33\frac{1}{3}\%$

giving a total of 97\frac{1}{3}\% of
direct labour

The same result would be obtained by allocating total overhead expenses between these two activities, the common overheads being allocated in proportion to direct labour. But in some cases, it may not be appropriate to allocate the common overheads in proportion to direct labour in this way and it may be necessary instead to choose some basis suitable for each item of expense.

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Similar problems arise where certain expenses are incurred only on exported goods. It may also be necessary to allocate a relatively greater proportion of certain overhead expenses (e.g. salesmen's salaries and commissions, and advertising) to non-utility goods than to utility goods. Where two or more types of goods are produced (e.g. a hosiery manufacturer making both stockings and underwear, or a maker-up producing both outer-wear and underwear) departmental manufacturing accounts may be available.

The total overhead expenses, or departmental overhead expenses, should, as a rule, be divided between :—

- | | |
|--|-------------------------------|
| (i) Factory overheads ; | } to be included in |
| (ii) General Office and Administration Expenses appropriate to production ; | |
| (iii) General Office and Administration Expenses not appropriate to production ; | } i.e., the " costs of sale " |
| (iv) Selling expenses ; | |
| (v) Distribution expenses ; | |

The General Office and Administration expenses will be estimated in total and then apportioned between " costs of production " and " costs of sale " upon some basis suitable to the particular business.

This division of expenses is necessary :—

- (a) to calculate the costs of the goods produced for absorbed manufacturers ;
- (b) where the " composite business " provisions are applied and the " costs of sale " chargeable against the wholesale or retail margins must be excluded from the prices at which goods are transferred from the manufacturing branch (see pages 107 and 108) ;
- (c) in any other cases in which it would be inappropriate to recover all overhead expenses in one calculation.

It would generally be inappropriate to allocate the " costs of sale," by the method used for the allocation of production expenses, unless the costs of sale are relatively only a small part of

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total costs, and, as in the case of the small manufacturer the advantages of simplicity outweigh the disadvantages of possible inaccuracy. In most cases the "costs of sale" should be recovered either as a percentage on "costs of production" or where the articles are substantially the same, as a fixed sum per unit of cost (e.g. per dozen garments). Selling expenses, e.g. discounts allowable and selling commissions, which vary directly with selling prices, should be allocated as a percentage of selling price converted to a corresponding percentage on the total of the remaining costs. With the exception of these special expenses, however, it is considered inappropriate to allocate costs of sale as a percentage of selling price, since the selling prices depend on the calculation of the maximum prices.

A division of overhead expenses between costs of production and costs of sale will be particularly important where the business includes the wholesaling of goods bought from other manufacturers, which must bear their share of the costs of sale. In such cases it will be advisable to calculate the costs of the manufactured goods by including "costs of sale" as a percentage of "factory cost," the percentage being calculated as :—

Total costs of sale

Total factory cost of manufactured goods,
plus the total purchases of wholesaled goods.

A similar calculation should be made if the manufacturer has a retail branch selling goods bought from other manufacturers or from wholesalers. It is also necessary to ensure a correct allocation of overhead expenses where a manufacturer has goods made for him by commission manufacturers or by outworkers, in addition to producing goods in his own factory.

Where the stock of finished goods varies considerably, e.g. for seasonal reasons, it may be necessary to estimate the quantity of goods to be sold during the period of fixation, and to allocate the costs of sale in relation to the estimate of sales instead of the estimate of production.

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Various methods of allocating overhead expenses to different products are at present in use. The Board of Trade do not require the general use of any particular method. Manufacturers may, therefore, continue to use any reasonable and proper method of allocation which they normally adopt, having regard to the foregoing principles. It is desirable that the methods used for calculating the cost of utility goods, non-utility goods and Government contracts, produced by the same department of the business, should be such as would enable the total of the allocations in the various cost estimates to be readily reconciled with the actual costs.

TESTING THE ACCURACY OF THE COST ESTIMATES DURING THE PERIOD OF FIXATION

During the period of fixation the manufacturer will normally test the quantities of materials used for each article, both to check the accuracy of his cost estimate and to avoid wastage of materials. Similarly he will normally check the labour hours required for the manufacture of the article.

The manufacturer should also pay attention to the factors which may affect the accuracy of his overhead recovery rates, e.g. (a) substantial variations from the estimates of individual items of overhead expenses, and (b) variations of the volume of production from that of the estimated production. Consideration of such factors and any significant changes in wage rates or prices of materials may indicate a need for the revision of the cost estimates, and therefore of the selling prices, before the end of the period.

CHECKING THE COST ESTIMATES AT THE END OF THE PERIOD OF FIXATION

At the end of the period of fixation it should be possible to prepare an interim account sufficiently accurate for a useful check on the accuracy of the cost estimates.

COMPOSITE BUSINESSES

A manufacturer who also carries on a wholesale or retail branch and fulfils the necessary conditions, including the giving

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of a notice in writing to the Central Price Regulation Committee, is authorized to regard the wholesale and/or retail branches as separate businesses, and subject to certain qualifications, price his goods accordingly. The transfer of goods from the manufacturing branch to the wholesale or retail branch must be regarded as a sale and the goods may not be transferred at a price exceeding the maximum price calculated in accordance with the provisions applying to manufacturers. The wholesale or retail branch may then add the appropriate gross margin to the transfer price. Where the goods pass through a wholesale branch and a retail branch, in general only the retail margin may be added.

In calculating the transfer price from the manufacturing branch to the wholesale or retail branches, manufacturers should include the factory overhead expenses and those general office and administration expenses which are appropriate to production. The general office and administration expenses appropriate to selling, selling expenses and distribution expenses must, in such a case, be charged against the wholesale or retail gross margin as the case may be.

RECORDS

Manufacturers should be advised to keep such records as are necessary to estimate their costs and to check their cost estimates from time to time during and at the end of each period of fixation. The records necessary for this purpose would depend upon the costing methods employed, but would normally include cost estimates for each of the articles produced, and records of the quantities of all articles produced.

THE COSTS SCHEDULE

The Orders which fix maximum prices on the "cost plus net margin" basis provide that the "manufacturer's costs of production and sale shall be taken to be such an amount as is reasonably justified in respect of such costs by reference to the matters specified in the Schedule taken as a whole." This Costs Schedule covers the costs normally incurred by manufacturers in producing and selling goods, including factory, selling and administration expenses, but does not include certain financial

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expenses (e.g. debenture interest) which for the purposes of the calculation of maximum prices are to be regarded as allocations of profit.

The usual form of this Schedule is :—

1. *Costs of the provision of materials to be calculated on the basis of a weighted average of :—*

(a) Stocks in hand.

(b) Materials which are the subject of contracts for purchase at fixed prices for delivery during the period for which prices are to be determined.

2. *Cost of labour being all wages directly incurred in the production of the article.*

3. *Costs incurred by way of service charges paid to the manufacturer on commission in the case of goods manufactured wholly or partly on commission.*

4. *Factory Overheads :—*

(a) Rent or (where the property is owned and occupied) a charge in lieu thereof, not exceeding the net annual value for the purpose of assessment under Schedule A of the Income Tax Acts ; and rates.

(b) Maintenance of premises, plant and machinery.

(c) Wear and tear of plant and machinery.

(d) Heat, light and power.

(e) Salaries and wages for supervision and indirect salaries and wages not comprised under 2 above.

(f) Cost of materials and services which indirectly enter into manufacture.

(g) Transport and packing, being the actual cost on account of the factory.

(h) Cost of Air Raid Precautions.

(i) Insurance, including War Risks Insurance, but excluding premiums or contributions under the War Damage Act, 1943.

(j) Liability for duties of Customs and Excise.

(k) Levies made and rebates granted for the purpose of raising sums to be used in the maintenance and extension of home and export trade under schemes approved by the Board of Trade.

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5. *General Overheads (being overheads common to the whole business) :—*

- (a) Rent of premises other than factory premises, or (where property is owned and occupied) a charge in lieu thereof, not exceeding the net annual value for the purpose of assessment under Schedule A of the Income Tax Acts ; and rates.
- (b) Maintenance and repairs appropriate to the premises referred to in (a).
- (c) Heat, light and power.
- (d) Salary and wages for executive, accountancy, clerical and general office staffs.
- (e) Stationery, postage, telegrams and telephone, insurances, travelling expenses, and general office expenses.
- (f) Salesmen's salaries and commission, and other appropriate selling expenses.
- (g) Transport expenses (other than factory expenses). cost of operating or hiring vehicles, parcel post and carriage, warehouse packing materials, and packers' wages.
- (h) Advertising expenses limited to such expenses only as will ensure adequate distribution of products in the home market.

6. *Cash or settlement discounts customarily allowed.*

Questions about the interpretation of this Schedule may be addressed to the Board of Trade, whose opinions on some of the more important items are given below. It should be understood that the legal interpretation of the Schedule is a matter for the Courts.

1. In general, the sums to be included in the costings under any item should be limited to those allowed for taxation purposes.

2. *Materials.* It is not permissible to bring materials into costs at replacement values ; nor is it permissible to increase the charge for materials by charging out materials used at recent purchase prices, and valuing the basic stocks at earlier (and lower) purchase prices. When calculating the "costs of the provision of materials," appropriate

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deductions should be made in respect of discounts (including cash discounts) receivable and proceeds of sale of waste materials.

3. *Rent.* Where the manufacturer owns and occupies the premises he may include a charge in lieu of rent not exceeding the net annual value for the purposes of Schedule A assessment under the Income Tax Acts.

If part of the premises is let, or sub-let, the manufacturer may either :—

- (a) make a proper apportionment of the rent, or net annual value (as the case may be), rates and other relevant expenses, excluding from his costs those expenses appropriate to the part of the premises which is let or sub-let ; or
- (b) include in his costs the whole of the rent payable, or net annual value (as the case may be), rates and other relevant expenses *less* the full amount of the rent receivable.

4. *Maintenance of premises, plant and machinery.* It is necessary to distinguish between “ capital expenditure ” and “ revenue expenditure ” and the manufacturer should regard the amount allowable in respect of this item for Income Tax purposes as the maximum sum to be included in his costs of production and sale.

Provision made in respect of deferred repairs may be included but should not normally exceed the appropriate proportion of either :—

- (a) the amount estimated to be “ allowable ” in the appropriate period by the Inland Revenue authorities for Excess Profits Tax purposes ; or
- (b) where E.P.T. does not apply an amount equivalent to the deficit between actual repair expenditure and the average annual expenditure by the manufacturer under this heading in the last four pre-war years, adjusted for increased costs not exceeding 40% on pre-war costs.

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5. *Wear and tear.* In the absence of uniformity in calculating depreciation of plant and machinery it is necessary to place some upper limit on the amount included in costs in respect of this item. The manufacturer should regard as the maximum allowance for the period of fixation the appropriate proportion of the Wear and Tear Allowance for the purposes of Income Tax, National Defence Contributions or Excess Profits Tax, but whichever of the three "Wear and Tear" computations is adopted it should be used consistently.

The National Defence Contributions and Excess Profits Tax computations will be directly related to the manufacturer's normal accounting periods; when the Income Tax computation is used the Wear and Tear Allowances for the Income Tax years may be apportioned to calculate the charge for the period of fixation.

6. *Insurance.* All forms of insurance such as fire insurance, Employers' Liability Insurance and the like are included under this heading, but Life Assurance and contributions under the War Damage Act, are not allowed.

7. *Levies and rebates.* The amount to be brought into account for items 4 (j) and 4 (k) must be allocated specifically to the products to which they relate. Item 4 (k) covers only levies expressly approved by the Board of Trade for the purposes stated. It does *not* cover contributions to compensation funds set up in connexion with arrangements for the concentration of industry nor any other levies for whatever purpose; such contributions and levies must be regarded as allocations of profit.

8. *Items which may not be included in costings.* The following list, which is by no means exhaustive, contains some examples of items which are not covered by the Costs Schedule and may not, therefore, be taken into account in calculating costs of production and sale.

- (a) *Interest on capital* should be regarded as an allocation of profits whether such capital is in the form of shares, proprietors' or partners' capital accounts, debentures,

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fixed or long term loans, short term accommodation bills, bank overdrafts or "frozen" trade creditors' accounts, or any other form.

(b) *Expenditure of a capital nature.*

(c) *Provision for contingencies* (but see note below).

(d) *Losses recoverable under the War Damage Act 1941 or insurance policies.*

These include any losses due, for example, to under insurance of goods, etc., which are lost or destroyed and to loss of interest owing to delay in the payment of compensation.

(e) *Income Tax, Surtax, National Defence Contribution or Excess Profits Tax.*

(f) *Compensation for loss of office and similar lump sum payments to directors or discharged employees, etc.*

(g) *Jobbing losses.*

Where perfect goods are manufactured and for reasons of fashion or some other reason some of them are sold at a reduced price, any loss which arises is not an element of cost and may not be brought into account.

9. General.

(a) *Contingencies.*

Manufacturers should not include in cost estimates any allowance to cover costs or increases in costs, which may or may not materialize during the period of fixation, and is not reasonably justified. Where, however, it is known that particular items of costs included in the Schedule will change during the period of fixation, they should take account of such changes, but only to the extent that costs in the period for which prices are being determined will be affected. For example, should it be known that the rent, or any other item of overhead expense, will be increased at some future date, within the period of fixation, then account may be taken of this known increase on the basis of a proper average.

(b) *Imperfect goods.*

A manufacturer may include in the cost estimates appropriate sums to recover the losses which may be incurred on

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any imperfect goods which are unavoidably produced in the course of his business ; the allowances should be based on the manufacturer's past experience of the proportion of imperfect goods, e.g. a hosiery manufacturer will usually make such allowances for "seconds" and "thirds" which are produced in the course of manufacture of "firsts."

(c) *Remuneration of proprietors, partners or directors.*

The sums included under any of the appropriate headings of the Cost Schedule in respect of remuneration of proprietors, partners or directors should be limited to such amounts as are reasonable rewards for the services rendered by them, and should not in any case exceed the amounts actually paid or payable. Any sums paid or payable whether as salaries, directors' fees, bonuses or commissions, in excess of these "reasonable rewards for services rendered" must be regarded as allocations of profits and excluded from the costs.

In assessing the amounts which may reasonably be included in costs, the manufacturer should be guided by what would be reasonable remuneration for an independent person engaged as an employee to perform similar services.

(d) *Payments to persons serving in the Forces.*

Where, under any heading of the Schedule it is permissible to include wages, salaries or other remuneration to persons for services in connection with the business, account may also be taken of reasonable payments actually made to persons formerly engaged in, or employed by, the business and now serving in the Forces, if of the nature of an allowance to make up service pay to the remuneration previously paid. Payments to proprietors, partners or directors serving in the forces may only be included to the extent that they are necessary to make up the service pay of such persons to such amounts as would have been a reasonable reward for the services previously rendered.

APPENDIX

ADJUSTMENT OF OVER AND UNDER RECOVERIES OF MANUFACTURERS' COSTS OF PRODUCTION AND SALE

IN response to a number of requests, the Board of Trade and the Central Price Regulation Committee have considered what statement they can make to assist any manufacturer who, in calculating his maximum prices, has over- or under- recovered his costs of production and sale during any period and wishes to know whether he should, or is permitted to, make an adjustment therefor when calculating his prices for a subsequent period. The following statement represents the views of the Board of Trade and the Central Price Regulation Committee.

Where manufacturers' maximum prices for goods are regulated by reference to their costs of production and sale, they must frequently price them by calculating in advance what their costs of production and sale will be. Where a manufacturer has over-charged for his goods because his advance calculation of costs of production and sale was in excess of the realised costs, *prima facie* offences have been committed. Any steps taken by the manufacturer, before complaint is made, to adjust his prices for such over-recoveries of costs by charging lower prices for similar goods would be a factor to be taken into account by the Board or by a Local Price Regulation Committee in considering the gravity of that offence. Similarly, if it were found that a manufacturer had exceeded his maximum price by taking into his costs an adjustment for a previous under-recovery in respect of similar goods, this matter would also be taken into account. No account would, however, be taken of it in a case where ceiling prices had been exceeded.

In making this statement, the Board of Trade and the Central Price Regulation Committee wish to emphasise that the advance calculation of costs made at the beginning of an accounting period should be kept under constant review and that a significant change in costs or error in the calculation will probably require changes of selling prices before the end of that period.

This statement supersedes note 7 of the statement issued by the Central Price Regulation Committee on the 12th May, 1941, and Paragraph 87(c) on page 25 of the booklet "Prices and Margins" issued by the Board of Trade.

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