CABINET.

STANDING COMMITTEE ON EXPENDITURE.

REPORT.

Composition and Terms of Reference.

1. At their Meeting on the 27th April, 1925 (Cabinet 22 (25), Conclusion 2 (b)), the Cabinet agreed to authorise the Chancellor of the Exchequer to announce the intention of the Government to set up a Standing Cabinet Committee to review expenditure. In pursuance of this decision the composition of the Committee was ultimately settled by the Prime Minister as follows:

The Prime Minister (in the Chair);
The Lord Privy Seal;
The Chancellor of the Exchequer;
The Home Secretary;
The Secretary of State for India;
The President of the Board of Trade;
The Minister of Agriculture and Fisheries;
The First Commissioner of Works;

the terms of reference being "to review the Estimates of National Expenditure with the object of making a substantial reduction of the charges on the taxpayer."

The Colwyn Committee.

2. Shortly after the constitution of the Committee, the Prime Minister appointed—

Lord Colwyn (Chairman);
Lord Chalmers, G.C.B.;
Lord Bradbury, G.C.B.;
“to be a Committee to investigate the expenditure falling upon Navy, Army and Air Votes and to make recommendations with a view to effecting reductions in the cost of these Services and in particular in priority to recommend immediate economies on Navy Votes sufficient to meet the additional cost involved by the commencement of the new programme of cruiser construction in the current year rather than in 1926.” Early in January the Committee received the Report of Lord Colwyn’s Committee on the expenditure of the Fighting Services. That Committee have since undertaken, at the request of the Prime Minister, a special investigation of Education expenditure.

3. The Committee directed their attention in the first instance to the problem of estimating with the greatest possible degree of accuracy the extent of the economies which must be realised if the Budget of 1926/27 is to balance without recourse to increased taxation.

4. The Chancellor of the Exchequer has informed the Committee that so far as 1925/26 is concerned, the Budget Estimates seem likely in the main to be realised. The only important disturbing factor is the Coal Subsidy. This unforeseen service for which, of course, no provision was made in the last Budget, may well involve an additional expenditure of £19,000,000 in the current financial year, resulting in a deficit for that year of approximately this amount, which will have to be met by temporary borrowing.

5. The gravity of the situation is, however, greatly intensified by the seriousness of the financial outlook for 1926/27. At an early stage of their enquiry the Committee were informed that, so far as could then be ascertained, a deficit on the 1926/27 Budget of £32,000,000 was in sight. Later and more accurate estimates widened the gap between the Income and Expenditure in 1926/27, and it became clear that in the absence of far-reaching and drastic remedial measures the deficit figure for that year would have to be placed at not less than £40,000,000. A provisional forecast of revenue and expenditure for next year showed:

<table>
<thead>
<tr>
<th></th>
<th>1926/27</th>
<th>1925/26</th>
<th>Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>790,030,000</td>
<td>800,500,000</td>
<td>- 10,470,000</td>
</tr>
<tr>
<td>Expenditure</td>
<td>829,278,000</td>
<td>799,400,000</td>
<td>+ 29,878,000</td>
</tr>
</tbody>
</table>

No allowance was made in the above figures for receipts in respect of the French or Italian debts, while they included provision for only one month’s Coal Subsidy.

6. If a balance is to be attained in 1926/27 on the basis of the above forecast, economies will have to be effected to the extent of about 5 per cent. of the total expenditure. Of the total of £829,000,000,
£352,000,000 consists of National Debt Charges, and, if this figure is excluded, the 5 per cent. would rise to about 8½ per cent. on the balance of £477,000,000. Of this latter sum about £66,600,000 represents the cost of the Post Office and the Revenue Departments, in which a prior consideration is the efficient collection of revenue. The balance of £410,400,000 may be subdivided as follows:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>Per cent.</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Defence</td>
<td>127,000,000</td>
<td>29</td>
</tr>
<tr>
<td>Social Services</td>
<td>193,400,000</td>
<td>49</td>
</tr>
<tr>
<td>Other Services</td>
<td>90,000,000</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>£410,400,000</td>
<td>100</td>
</tr>
</tbody>
</table>

7. It has been calculated that taking the estimates of 1925/26, no less than 83.5 per cent of the State expenditure on Social Services and Other Services (Education, Old Age Pensions, War Pensions, Widows' Pensions, Health, Labour and Unemployment Services, all Departments of Government other than the Fighting and the Revenue Services, and of Consolidated Fund Charges, except Debt), is covered by definite statutory or contractual obligations. Of this, 83.5 per cent.—

69.3 per cent. is for expenditure which can only be reduced by Statute;
6.7 per cent. is expended on Services which can only be terminated by Statute, although the amount of the expenditure is not so fixed;
7.5 per cent. is governed by contractual obligations or definite pledges.

8. In view of the critical financial position indicated to them at the outset, the Committee authorised the immediate issue, to all Departments, of a Circular calling for a reduction in the rate of Departmental expenditure and notifying Departments that no Supplementary Estimates would be permitted. The Committee also decided to invite Lord Colwyn's Committee to examine the possibility of reducing the existing provision for the Fighting Services by ten millions below the 1925/26 net aggregate provision of £120,500,000 and to apportion this amount between the three Service Departments indicating how the necessary reductions could be carried out in the least injurious manner.

9. The figures in the foregoing paragraphs clearly demonstrate that the immediate realisation of economies of the order of £40 millions must necessarily involve serious changes of policy, particularly as regards national defence and social services.

10. While their primary task has been to attempt the realisation of a balanced Budget in 1926/27, the Committee consider that the attainment of this end, without reference to the financial position of subsequent years, would represent a very inadequate solution of the real problem. The Committee view with the gravest apprehension the progressive growth of
expenditure in many fields of State activity, particularly in the extensive range of social services, which has been a feature of recent years and which constitutes a future menace of a most serious character. If this steadily rising tide of expenditure is to be stemmed it is necessary not only to curtail existing commitments but also to pursue a very conservative policy in the future in the acceptance of new ones. They also view with great concern the extent to which State expenditure is linked with that of local authorities by the percentage system of grants. This system not only hampers Treasury control of the national finances, but inevitably weakens local responsibility and leads to uneconomical administration, which, even with the aid of large staffs, Government departments are unable to check. They regard it as a matter of great urgency to terminate this system at the earliest possible date and to substitute for it a basis of Exchequer aid independent as far as possible of the expenditure of individual authorities.

11. The Committee fully realise that many of their proposals and the legislation required to give effect to them will excite vehement opposition on the part of the interests concerned; they consider, however, that it is absolutely essential to success that the proposals should be regarded as a whole. In this way, Parliament and the country can best be made to realise the true character of the problem and the nature and conditions of the concessions and sacrifices which every class must be invited and required to make in the common interest.

12. In the following paragraphs will be found the conclusions reached by the Committee respecting the Services which they have themselves examined. Appended to the Report is a tabular summary (Appendix I) showing the position to date as regards (Part I) the 1926/27 reductions of expenditure and (Part II) increases of revenue which have either been adopted by the Committee or have been otherwise settled by agreement with the Department concerned. It will be observed from the Appendix that these proposals amount in all to £28,715,000, leaving a further sum of not less than £11,400,000 to be found. The Committee have carefully reviewed the whole field of expenditure, and have come to the conclusion that this sum should be obtained by the economies indicated in Part III of the Appendix. Pending the report of Lord Colwyn's Committee in regard to education, the Committee have not inserted any figure under this head, but they submit specific recommendations in the other cases.

While the Committee regard the proposals set out in Appendix I as representing the best method of securing the desired balance between revenue and expenditure in 1926/27, they are fully conscious that these do not include any considerable reductions in the cost of public administration. In view of the continuous control exercised by the Treasury over Departmental expenditure, it is not to be expected that any large reductions under this Head are immediately possible, unless the standard of remuneration of the four Services of the Crown, the Teachers and the Police is to be
reduced, but, from the political point of view, they attach the greatest possible importance to a steady reduction in Departmental staffs, which in the main depends on policy, and they submit specific recommendations for this purpose in paragraph 33. Such reductions, especially where they involve reorganisation of existing machinery of administration, necessarily take time to effect, and may involve an additional charge in the first year on account of pensions, but their importance, in the Committee’s view, is not to be judged so much by the immediate economy as by the indication they afford of a serious endeavour on the part of the Government to reduce the cost of administration to the lowest possible figure.

13. The Committee invite the Cabinet—

(1.) To give general approval to the proposals for effecting the reductions of expenditure and increases of Revenue particularised in Parts I and II of Appendix I to this Report.
(2.) To determine the amount of the reductions to be effected in the various Services named in Part III of Appendix I.
(3.) To approve the recommendations respecting Civil Service Administration contained in paragraph 33 below.
(4.) To authorise the Committee to proceed with the immediate preparation of a draft Economy Bill to give effect to the approved proposals of the Committee which involve legislation.

CIVIL EXPENDITURE.

THE MINISTRY OF AGRICULTURE.

14.—(i.) The Provisional Estimates for 1926/27 originally submitted to the Committee by the Ministry of Agriculture and Fisheries amounted to £2,733,316, the comparable figure for 1925/26 being £1,840,386, or an increase in the net estimate of £892,930.

(ii.) The following proposals which have been accepted by the Minister of Agriculture and Fisheries will have the effect of reducing the Provisional Estimates by a sum of about £683,000.

(a.) Land Settlement.

(iii.) In the normal course a double charge, to the extent of £560,000, would have fallen on next year’s Votes in respect of the Government’s liability under the (War) Land Settlement Scheme. Hitherto the Government have been paying the actual loss on the scheme yearly in arrear, but, on the commutation of this liability for a fixed annual payment, the Ministry of Agriculture had arranged to make their payments concurrently in future. The double charge has now been postponed until 1928.
(b.) Land Drainage.

(iv.) The Cabinet have already approved expenditure of £200,000 a year for the next five years on Land Drainage, and this has been publicly announced. The Ministry of Agriculture have now agreed for next year to reduce the total to £175,000 and to include within it the expenditure likely to be incurred on any works in the Ouse Drainage area (£40,000) and such remanet charges as fall into next year in respect of Unemployment Drainage Schemes, estimated at about £25,000. These represent in the aggregate a reduction for next year of the new £200,000 programme to £110,000.

(c.) Minor Economies.

(v.) Minor economies in other directions to the extent of £23,000.

Education Expenditure.

15.—(i.) At their meeting on the 25th November, 1925 (Cabinet 54 (25), Conclusion 3), the Cabinet had under consideration a Note (C.P. 487 (25)) by the Chancellor of the Exchequer covering the Committee's Conclusions respecting the Provisional Estimates of the Board of Education for 1926/27, and also an agreed statement of the proposals for reduction.

(ii.) On the occasion in question, the Cabinet were informed that, subject to a certain reservation by the President of the Board of Education, it had been agreed to effect a net reduction of £934,000 on the 1926/27 Provisional Estimate figure (£41,816,845) of the Board of Education, reducing that figure, itself a very low one, to £40,882,845. The corresponding savings on the estimates of the Scottish Education Department would amount to about £166,000, making an aggregate saving of approximately £1,100,000. The Cabinet approved the arrangements in contemplation, and authorised the issue of Circular 1371.

(iii.) The Committee were subsequently informed that the actual present educational expenditure by Local Authorities had been seriously under-estimated, and that on the latest available figures it would be impossible to reduce the 1926/27 Estimates below £41,900,000, and that, in the circumstances, the President of the Board of Education wished to retain the percentage grant system for 1926/27, to postpone the coming into operation of the block grant system until 1927/28, and, in the meantime, to enforce all possible economies. In any case, considerable reductions will be made in the Board’s staff.

(iv.) In view of the serious reactions in other directions which failure to secure economies in the educational field must produce, the Committee have invited Lord Colwyn's Committee to undertake an examination of the educational estimates. This examination is now proceeding.
MINISTRY OF LABOUR.

15.—(i.) The financial requirements of the Ministry of Labour in recent years have been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure</th>
<th>Increase or decrease as compared with previous year.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922/23</td>
<td>£15,890,517</td>
<td>£3,189,457</td>
</tr>
<tr>
<td>1923/24</td>
<td>£15,065,601</td>
<td>£824,916</td>
</tr>
<tr>
<td>1924/25</td>
<td>£14,034,783</td>
<td>£1,030,818</td>
</tr>
<tr>
<td>1925/26 (Estimate)</td>
<td>£13,859,209</td>
<td>£175,574</td>
</tr>
<tr>
<td>1926/27 (Estimate)</td>
<td>£16,962,638</td>
<td>£3,103,429</td>
</tr>
</tbody>
</table>

(ii.) The gross provisional Estimate for 1926/27 originally submitted to the Committee amounted to £21,800,941, from which fell to be deducted Appropriations-in-Aid of £4,838,303, making the net figure £16,962,638. Of the £21,800,941, no less than £17,265,000 represented the contribution to the Unemployment Insurance Fund.

(a.) Unemployment Insurance Scheme.

(iii.) Under the Unemployment Insurance Act, 1925, the Exchequer contribution to the Unemployment Insurance Scheme would have increased from 6½d. a week for men to a certain 8d., with an additional contingent 1d., which would in all probability have been payable for three-quarters of the year 1926/27, and possibly for the whole year. Corresponding increases were to be made in the contributions for women and juveniles. It has, however, now been agreed that, subject to an investigation of the unemployment data for 1926/27 to be held forthwith, the contribution in the case of men should be reduced to 6d. as from the 1st April, 1926, with suitable adjustments in the other cases, and that the amount of the Exchequer contribution to the Unemployment Fund should be provisionally taken at £12,000,000. On this basis, and assuming an estimated average unemployment figure in 1926/27 of 1,150,000 and an average weekly cost per person of 13s. 6d., it would appear that, while an increase not exceeding £3,500,000 in the debt of the Unemployment Insurance Fund would be involved in 1926/27, the saving in the amount of the Exchequer contribution may be put at £5,250,000.

(b.) Training of Disabled Ex-Service Men.

(iv.) This scheme, which is drawing to a close, is being stiffened up somewhat to permit of further economies. The reduction in 1926 is estimated at £50,000.
(c.) *Minor Economies.*

(v.) Minor economies aggregating £117,000.

The above reductions amount in the aggregate to £5,417,000.

**UNEMPLOYMENT RELIEF EXPENDITURE.**

(a.) *Lord St. David's Committee.*

16.—(i.) At their meeting on the 25th November, 1925 (Cabinet 54 (25), Conclusion 4), the Cabinet had before them a Note by the Chancellor of the Exchequer (C.P. 487 (25)) covering the Committee’s Conclusions respecting the provision for Unemployment Relief to be inserted in the Estimates for 1926/27, and agreed in effect that subject to commitments in respect of schemes already received and to the exceptional treatment of applications for specially necessitous areas fulfilling certain drastic conditions, the existing schemes of grant administered by the Unemployment Grants Committee should be terminated.

(ii.) At their meeting on the 29th January, 1926 (Cabinet 2 (26), Conclusion 9), the Cabinet had before them a Memorandum by the Minister of Labour (C.P. 29 (26)) setting out the position which had resulted from the above decision to restrict Unemployment Grants-in-aid of Relief Works.

(iii.) It is estimated that as regards the Unemployment Grants Committee the effect of the above change of policy will be a reduction of the Unemployment Grants amounting to £230,000 in 1926/27 with substantially larger savings in subsequent years.

(c.) *Training of Women—and Juvenile Unemployment Centres.*

(iv.) It has been agreed to reduce the Estimates for the Training of Women and Juvenile Unemployment Centres by a sum of £60,000. The saving will materialise from a tightening of the grant conditions.

(d.) *Loans to Local Authorities.*

(v.) It has also been agreed to reduce by £100,000 the provision (£950,000) in the Estimates for Loans to Local Authorities unable to finance themselves by borrowing in the open market.

The above reductions aggregate £390,000.

**MINISTRY OF HEALTH PROVISIONAL ESTIMATES.**

17.—(i.) The net Estimate of the Ministry of Health for 1925/26 amounted to £19,525,977, the corresponding figure in the Provisional Estimate for 1926/27 is £26,417,746. Excluding the £4,000,000 inclusive grant for Widows', &c., Pensions, the 1926/27 Estimate shows the following increases on the main items of the Vote:—
1925/26. 1926/27. Increase.

<table>
<thead>
<tr>
<th>Service</th>
<th>1925/26</th>
<th>1926/27</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Grants</td>
<td>7,945,000</td>
<td>8,502,000</td>
<td>557,000</td>
</tr>
<tr>
<td>Health Grants</td>
<td>2,880,000</td>
<td>3,011,000</td>
<td>129,000</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>6,097,000</td>
<td>7,749,000</td>
<td>1,652,000</td>
</tr>
<tr>
<td>Unemployment Grants</td>
<td>1,350,000</td>
<td>1,900,000</td>
<td>550,000</td>
</tr>
</tbody>
</table>

(a.) Housing Grants.

(ii.) About 87 per cent. of the total expenditure on Housing Grants is attributable to the grossly extravagant arrangements of the Addison Scheme of 1919. The Committee have examined a suggestion that the Wheatley Housing Scheme of 1924 should be terminated forthwith, but concur with the Minister of Health in the view that it will be preferable to wait until next Autumn, when under Section 5 of the Housing (Financial Provisions) Act, 1924, the present subsidy arrangements have to be reviewed. The Minister of Health has assured the Committee that it is his desire and intention to bring the Wheatley Scheme to an end as soon as practicable and also to proceed actively with the policy of the sale of Addison Houses.

(b.) Health Grants.

(iii.) It has been proposed to the Committee that these grants, which are now on a percentage basis, should in future be replaced by a block grant, the amount of which for the next three financial years should not exceed in England and Wales the total expenditure on these services in 1925/26, the Minister of Health to have discretion to allocate the amount between the various services and the various local authorities before stereotyping the grants in each case. In Scotland the corresponding figure would be fixed at £10,000 below the aggregate figure proposed in the Provisional Estimates. These proposals were estimated to give a saving in 1926/27 of £140,000 with considerably larger economies in future years.

(iv.) The Minister of Health has warned the Committee that an attempt to stabilize expenditure on these services will produce opposition out of all proportion to the financial issues involved. In his opinion the scheme would not save more than £30,000 in 1926/27.

(c.) National Health Insurance Grants.

(v.) The large increase of £1,652,000 in the 1926/27 Estimate for this service is mainly due to the setting free of large accumulated funds as the result of the second valuation of Approved Societies. Having regard to the highly prosperous financial condition of the Health Insurance Scheme the Committee felt fully justified in examining various proposals which have been laid before them for relieving the Exchequer of part of the extremely heavy burden of the State contribution.
After careful consideration the Committee were favourably disposed towards the following proposals submitted to them by the Government Actuary:

1. To reduce the State Grant from the present 2/9ths to 1/7th in the case of men, and 1/5th in the case of women.

   This, it is estimated, will give savings of £2,310,000 in 1926/27, £2,820,000 in 1927/28 and £2,720,000 in 1928/29; and

2. To antedate this reduction to the 1st January, 1924, so as to make it operate over the whole of the quinquennium ending on the 31st December, 1928.

   The effect of (2) will give an additional saving to the Exchequer of approximately £1,700,000 in each of the years 1926/27 and 1927/28 and a saving of £1,250,000 in the nine months of 1928/29.

Under the arrangements contemplated the proposals will not, the Committee are assured, involve insolvency in the case of any Society which is otherwise solvent.

The Minister of Health has accepted proposal (1), but in so doing has warned the Committee that its adoption will make it impossible for the present statutory benefits to be extended in future, that the proposal itself will arouse the violent, highly organised and powerful opposition of the Approved Societies, and that he could not possibly undertake to carry the necessary legislation through the House of Commons unless it were clearly demonstrated that other Departments were being called upon to make comparable sacrifices. The Minister of Health felt even greater doubts as to the political practicability of carrying proposal (2) into effect, and the Committee have recently been informed by the Chancellor of the Exchequer that having regard to all the circumstances he does not now propose to press this particular suggestion, but that he hoped that the Minister of Health would find himself able to entertain an alternative proposal that the whole cost of the central administration of National Health Insurance, including valuation and audit, should be debited to the Health Insurance Fund with a resulting saving to the Exchequer of about £900,000 per annum. The Minister of Health has accepted this proposal so far as it relates to the cost of valuation and audit at an estimated saving of £190,000 in 1926/27, and he is conferring with the Chancellor of the Exchequer regarding the remainder of the proposal.

The Committee have agreed—

1. That the cost of the valuation and audit of Approved Societies Accounts should in future be charged to the Societies (Estimated saving in 1926/27, £190,000).

2. That the State contribution to National Health Insurance should be reduced from 2/9ths to 1/7th in the case of men and to 1/5th in the case of women (estimated saving in 1926/27 of
£2,310,000), but only on condition that it can be clearly demonstrated that other Departments were being called upon to make comparable sacrifices.

(3.) That subject to the approval of the Minister of Health the whole cost of the Central Administration of National Health Insurance (including valuation and audit) should be charged to the Health Insurance Fund.

COLONIAL SERVICES.

18.—(i.) The total expenditure on Colonial Services is liable to large fluctuations from year to year owing to grants for special services arising in one year only. After making adjustments in respect of Dominion Services (which are now separately provided for), the Colonial Services requirements in recent years have been as follows:—

<table>
<thead>
<tr>
<th>Year</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922/23</td>
<td>1,843,853</td>
</tr>
<tr>
<td>1923/24</td>
<td>(1,494,602)</td>
</tr>
<tr>
<td>1924/25</td>
<td>1,135,904</td>
</tr>
<tr>
<td>1925/26 (Estimate)</td>
<td>1,107,017</td>
</tr>
<tr>
<td>1926/27 (Estimate)</td>
<td>501,032*</td>
</tr>
</tbody>
</table>

(ii.) The Secretary of State for the Colonies has accepted a proposal of the Chancellor of the Exchequer that the 1926/27 Estimate should be reduced by a sum of £50,000. The Committee have agreed—

That the provisional Estimate for Colonial Services for 1926/27 amounting to £510,032 should be reduced by £50,000, which will give a net total of £460,032 for this estimate for the coming year.

OVERSEA SETTLEMENT.

19.—(i.) The Estimate for Oversea Settlement provides for expenditure under the Empire Settlement Act, 1922, and for cognate expenditure not within the terms of that Act.

(ii.) The following table (from which expiring War Services expenditure has been excluded) shows the requirements for the five years ending the 31st March, 1927:—

<table>
<thead>
<tr>
<th>Year</th>
<th>Empire Settlement Act (Net)</th>
<th>Other</th>
<th>Total (Net)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922/23</td>
<td>35,464</td>
<td>6,750</td>
<td>42,214</td>
</tr>
<tr>
<td>1923/24</td>
<td>416,554</td>
<td>11,016</td>
<td>427,570</td>
</tr>
<tr>
<td>1924/25</td>
<td>373,621</td>
<td>14,599</td>
<td>388,220</td>
</tr>
<tr>
<td>1925/26 (Estimate)</td>
<td>472,550</td>
<td>21,375</td>
<td>493,925</td>
</tr>
<tr>
<td>1926/27 (Estimate)</td>
<td>1,200,925</td>
<td>35,025</td>
<td>1,235,950</td>
</tr>
</tbody>
</table>

* Exclusive of £1,285,000 for Tanganyika now to be provided from the East Africa Transport Guarantee Loan.
(iii.) The Secretary of State for the Dominions has accepted proposals made by the Chancellor of the Exchequer for reducing the 1926/27 requirements by a sum of £310,000, including £100,000 in respect of assisted passages to Australia, the Committee have agreed—

That the provisional Estimate for Oversea Settlement for 1926/27 should be reduced from £1,235,950 by the sum of £310,000, giving a net estimate for this service of £925,000.

**MIDDLE EAST SERVICES.**

20.—(i.) The Services comprised in this Estimate were co-ordinated under the Colonial Office from the 1st April, 1921. Expenditure since that date has been as follows:

<table>
<thead>
<tr>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921/22</td>
<td>27,013,935</td>
</tr>
<tr>
<td>1922/23</td>
<td>9,846,327</td>
</tr>
<tr>
<td>1923/24</td>
<td>7,177,782</td>
</tr>
<tr>
<td>1924/25</td>
<td>5,332,631</td>
</tr>
<tr>
<td>1925/26 (Estimate)</td>
<td>4,925,000*</td>
</tr>
<tr>
<td>1926/27 (Estimate)</td>
<td>4,877,000</td>
</tr>
</tbody>
</table>

(ii.) In consultation with the Secretary of State for the Colonies, the Committee have agreed to the following reductions in the 1926/27 Provisional Estimates for these Services:

(a.) £168,000 in respect of the forthcoming reduction of the Iraq Garrison by two Battalions. (See Cabinet 3 (26), Conclusion 10."

(b.) £17,000 in respect of the provision for the Iraq Levies.

(c.) £150,000 in respect of the provision of two flights of aircraft at Amman.

(d.) In the absence of strong objection by Lord Plumer, reductions of £224,000 in respect of the Palestine frontier forces and £80,000 in respect of the Trans-Jordan Grant-in-Aid should be effected.

(e.) £8,700 in respect of the provision of ammunition for Arabian Tribes.

(iii.) The reductions approved by the Committee will amount, if realised in full, to £647,000, which, together with a sum of £48,000 previously offered by the Colonial Office, constitute a net reduction of £695,700, making the 1926/27 Estimate for Middle East Services £4,181,300 against the Provisional Estimate of £4,877,000.

(iv.) The Committee have also agreed that a sum of £45,800 should be included in the estimates of revenue as an Extra Receipt in respect of the first repayment instalment on account of fixed assets handed over by the British Government to Iraq.

* Including Supplementary Estimate.
THE PROPOSED GRANT OF £1,000,000 FOR EMPIRE MARKETING.

21.—(i.) The Committee have conferred with the Secretary of State for Dominion Affairs respecting the amount to be provided in the Estimates of 1926/27 and the immediately following years in respect of the proposed annual grant of £1,000,000 for the development of Empire trade.

(ii.) After full discussion, the Committee, at their meeting on Tuesday, the 26th January, 1926, agreed to make the following recommendation to the Cabinet:—

"That the Prime Minister should be invited to send a telegram to the Prime Ministers of the Dominions, explaining the serious financial circumstances which have rendered necessary the drastic curtailment of British expenditure, setting out the various measures taken by the British Government to develop Imperial Trade, and suggesting that, subject to their concurrence, the provision of the £1,000,000 grant for the development of Empire Trade should be postponed. It being clearly understood that it was the unqualified intention of the British Government to carry the policy respecting the grant into effect after the most careful consideration of the recommendations of the Imperial Economic Committee, and with such variations, if any, as may be agreed at the next Imperial Conference."

(iii.) The Secretary of State for Dominion Affairs requested that his dissent from the above recommendation might be recorded.

(iv.) The saving for 1926/27, if the proposal is adopted, will be £1,000,000.

MINISTRY OF TRANSPORT.

The Road Fund.

22.—(i.) In 1921/22, the first full year of the operation of the new basis of motor taxation introduced by the Finance Act of 1920, the product of the duties was £10,795,000, which rose steadily to £15,563,000 in 1924/25. It is estimated that the gross revenue of the Road Fund will be £18,150,000 in 1925/26; with substantial increases in subsequent years. The expenditure of the Road Fund has increased from £10,000,000 in 1920/21 to about £20,000,000 in 1925/26 (£17,000,000 being met from Revenue and £3,000,000 from balances). Notwithstanding this increase a large balance has accumulated which, on the 31st March, 1926, will amount to not less than £15,500,000.

(ii.) After consultation with the Minister of Transport and with his concurrence the Committee have approved the following proposals submitted to them by the Chancellor of the Exchequer:—

(1.) That £8,000,000 of the existing balances of the Road Fund should be transferred to the Exchequer in 1926/27.
(2.) That in future 20 per cent. of the revenue derived from the existing scale of taxation of motor cars and cycles should be regarded as luxury taxation and credited to general revenue. The gain to the Exchequer in 1926/27 is estimated at £2,000,000.

(3.) That the Road Fund should take over from the Unemployment Grants Committee the liability for all grants in respect of unemployment road schemes approved by that Committee. The extra charge on the Road Fund in 1926/27 is estimated at £800,000.

(iii.) Under these proposals the benefit to the Exchequer will be not less than £10,800,000 in 1926/27; £3,000,000 in 1927/28; and £3,200,000 in 1928/29.

**POST OFFICE ESTIMATES.**

23.—(i.) The Post Office Provisional Estimates for 1926/27 amount to £54,600,000, as against £52,958,000 for 1925/26, a net increase of £1,642,000.

(ii.) The Postmaster-General has satisfied the Committee that substantial economies in the Post Office Estimates can only be realised by (a) reduction of the wages of Postal Servants; (b) increase of postal charges; and (c) deterioration of the existing Post Office services. He has offered to reduce the 1926/27 Provisional Estimates by £100,000 and to increase his Provisional Estimate of revenue for that year by a further sum of £200,000.

(iii.) The Committee have accepted these offers and have requested the Postmaster-General to consider the possibility of increasing revenue by the institution of a system of "priority" telegrams and by effecting staffing economies in connection with certain improved mechanical facilities for the Telegraph service provided in recent years. The Committee have also requested the Treasury to confer with Lord Crawford's Broadcasting Committee on the question of securing for the Exchequer a greater contribution from the product of broadcasting licences.

**MISCELLANEOUS ECONOMIES.**

(1.) *The Navy, Army and Air Force Insurance Fund.*

24. It is estimated that on the 31st March, 1926, the accumulated surplus of the Navy, Army and Air Force Fund will amount to £1,500,000. With the concurrence of the Service Departments, the Committee have agreed:

To approve the proposal that the Navy, Army and Air Force Insurance Fund should surrender to the Exchequer the surplus
on the Fund on the 31st March, 1926 (estimated at approximately £1,100,000), after making provision for such sum as may be determined by the Government Actuary to be necessary to secure to present and future Members of the Fund the average additional benefits enjoyed by Members of ordinary Approved Societies.

(2.) Treasury Notes.
25. The Committee have agreed to a proposal of the Chancellor of the Exchequer that a saving of not less than £100,000 should be secured in 1926/27 by reducing the proportion of clean Treasury Notes in circulation.

(3.) Office of Works.
26. The Committee have been informed that the First Commissioner of Works has agreed in principle to effect reductions on the provisional Estimates of the Office of Works for 1926/27 amounting in the aggregate to £450,000 by the elimination of all new works which are not of the most urgent character and by the reduction of current expenses wherever possible.

(4.) Old Age Pensions Estimate.
27. The Committee have also been informed that the provisional estimates for Old Age Pensions for 1926/27 have been revised and now show a reduction of £605,000.

(5.) Board of Trade.
28. The Committee concur in the proposal to proceed this Session with the Bankruptcy and Companies Winding Up (Fees) Bill, the passage into law of which will enable a balance of about £350,000 on the Companies Fees Account to be paid into the Exchequer.

The Committee consider that statutory authority for the transfer of the above balance might be obtained in the general Economy Bill.

(6.) Travelling Expenses defrayed by the Exchequer.
29. The Committee have approved a proposal of the Chancellor of the Exchequer that in future the Exchequer should in no case pay more than Third Class fare for travelling within the United Kingdom by day, undertaken on Government business, the new rule to apply equally to Members of Parliament, members of the Fighting Services (whether travelling in uniform or not) and Government Officials and servants. Travelling by night to be treated as an exception to the above rule—First Class fare being allowed for night journeys in the case of persons entitled thereto at present.

The aggregate saving is estimated at about £170,000 per annum.
(7.) Ministry of Pensions.

The Committee understand that the Chancellor of the Exchequer has arranged with the Minister of Pensions for a reduction of the Provisional Estimates of that Department for 1926/27 of £1,000,000.

(8.) Minor Miscellaneous Economies.

It has been found possible to effect the following minor miscellaneous economies in certain Votes:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation—Ireland. Effect of new Agreement</td>
<td>£300,000</td>
</tr>
<tr>
<td>Railway Agreement Liquidation</td>
<td>£100,000</td>
</tr>
<tr>
<td>Forestry Commission</td>
<td>£100,000</td>
</tr>
</tbody>
</table>

The Estimate for the Sugar Beet subsidy has also been reduced by £250,000.

(9.) Revision of Estimate for Miscellaneous Revenue.

This Estimate has been increased by £1,000,000 in 1926/27.

Administrative Costs in the Civil Service.

33.—(i.) While substantial reductions of expenditure are only possible by alteration of policy, the Committee have not overlooked the importance of securing the largest possible economies in the sphere of public administration. Apart from reduction of staff resulting from contraction of work, staff costs can only be reduced—

(a.) By lowering the standard of remuneration;
(b.) By employing a smaller staff to do the work.

(ii.) With regard to (a), the Committee concur with the following opinion recently conveyed to them by the Chancellor of the Exchequer:

"After careful consideration, I am not prepared to recommend any general reduction in the standard of remuneration. The average rate of salary and wages in the Civil Service is approximately 70s. a week (or 75s. a week, if workmen employed in Government industrial establishments are excluded from the calculation). We have it from the Anderson Committee which enquired into the standard of remuneration of all the public services two years ago that, 'on the whole the pay-rolls of the Civil Service have been carefully and wisely arranged.' In face of this judgment, and having regard to the Government's decision not to reduce the pay of existing members of the fighting services, notwithstanding that the Anderson Committee found them to be excessive, it would not be easy to defend a general Civil Service cut."
Reduction of Staff.

(iii.) With regard to (b), the Committee consider that the size of Government staffs can and must be reduced and that a higher standard of output must be insisted upon through the Civil Service. With these objects in view the Committee recommend the Cabinet—

To authorise the immediate circulation to Departments of a Treasury Circular on the lines of the draft contained in Appendix II.

Hours of Attendance.

(iv.) The Committee have considered the question of increasing the minimum hours of attendance of that portion of the staff of the Civil Service at present employed on the basis of a seven-hour day. While the Committee are generally of opinion that it would be undesirable to extend to eight hours a day the hours of attendance of existing Civil Servants, it was agreed, at the request of the Chancellor of the Exchequer, that this question should be reserved for Cabinet decision.

The Committee—

(1.) Recommend to the Cabinet that the minimum hours of attendance of new entrants of that portion of the staff of the Civil Service which is at present employed on the basis of a seven-hour day or 42-hour week should be extended to eight hours a day with a half holiday on Saturday if the state of public business permits.

(2.) Leave for Cabinet decision the question whether the minimum hours of attendance of existing members in the Civil Service employed on the basis of a seven-hour day should be similarly extended to eight hours a day without compensation.

DEFENCE EXPENDITURE.

Army, Navy and Air Force Votes.

The Colwyn Committee* recommended that the total Defence Expenditure for 1926/27, estimated tentatively by the Service Departments at £127,000,000 should be taken at £116,000,000, this figure being allocated as follows between the three Services:

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Navy</td>
<td>57,500,000</td>
</tr>
<tr>
<td>Army</td>
<td>42,500,000</td>
</tr>
<tr>
<td>Air Force</td>
<td>16,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116,000,000</strong></td>
</tr>
</tbody>
</table>

* For the Report of Lord Colwyn's Committee, see Appendix III.
Air Estimates.

The Secretary of State for Air has accepted the Colwyn Committee's recommendation, and the Air Estimate for 1926/27 will therefore amount to £16,000,000, a reduction of £2,000,000 on the figure provisionally submitted to the Colwyn Committee.

The Committee recommend the Cabinet to take note of and approve this arrangement.

Navy Estimates.

The first Lord of the Admiralty has not found it possible to accept the findings of the Colwyn Committee in their entirety. The Cabinet Committee agree with the Colwyn Committee that a reduction of the 1926/27 Navy Estimates to £57,500,000 is immediately practicable, and at their request the Prime Minister, in communicating this decision to the Admiralty, has requested the Department to prepare the Navy Estimates for 1926/27 on this basis, adding that if, in respect of any particular item, the Admiralty feel unable to accept the proposals in the Colwyn Report, equivalent alternative economies should be suggested to the Treasury.

Army Estimates.

While the War Office did not at first feel able to accept the total of £42,500,000 suggested by the Colwyn Committee the matter has since been further discussed between the Chancellor of the Exchequer and the Secretary of State for War and the Committee understand that there are good expectations of reaching an agreement on this figure.

Signed on behalf of the Committee,
STANLEY BALDWIN, Chairman.

10, Downing Street,
February 9, 1926.
APPENDIX I.

STANDING COMMITTEE ON EXPENDITURE.

Summary of Conclusions respecting Reductions, &c.

PART I.—Accepted Proposals for Reductions.

(a.) Reduction of Expenditure—

<table>
<thead>
<tr>
<th>Ministry of Agriculture</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Pensions</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Ministry of Labour</td>
<td></td>
</tr>
<tr>
<td>Unemployment Relief</td>
<td></td>
</tr>
<tr>
<td>St. David's Committee</td>
<td>230,000</td>
</tr>
<tr>
<td>Women and Juvenile Training</td>
<td>60,000</td>
</tr>
<tr>
<td>Loans to Local Authorities</td>
<td>100,000</td>
</tr>
<tr>
<td>Health Insurance</td>
<td></td>
</tr>
<tr>
<td>Reduction of State Grant</td>
<td>2,310,000*</td>
</tr>
<tr>
<td>Recovery of Cost of Audit and</td>
<td></td>
</tr>
<tr>
<td>Valuation</td>
<td>190,000</td>
</tr>
<tr>
<td>Public Works and Buildings</td>
<td>450,000</td>
</tr>
<tr>
<td>Old Age Pensions</td>
<td>605,000</td>
</tr>
<tr>
<td>Compensation</td>
<td></td>
</tr>
<tr>
<td>Ireland, Effect of New Agreement</td>
<td>300,000</td>
</tr>
<tr>
<td>Air Estimates, Reduction to £16 million</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Railway Agreements Liquidation</td>
<td>100,000</td>
</tr>
<tr>
<td>Post Office</td>
<td>100,000</td>
</tr>
<tr>
<td>Forestry Commission</td>
<td>100,000</td>
</tr>
<tr>
<td>Sugar Beet</td>
<td>250,000</td>
</tr>
<tr>
<td>Middle East Services</td>
<td>740,000</td>
</tr>
<tr>
<td>Oversea Settlement</td>
<td>310,000</td>
</tr>
<tr>
<td>Colonial Services</td>
<td>50,000</td>
</tr>
<tr>
<td>Treasury Notes</td>
<td>100,000</td>
</tr>
<tr>
<td>Travelling Expenses</td>
<td>170,000</td>
</tr>
</tbody>
</table>

Total of (a)                   | 15,265,000 |

† Accepted provisionally.  

* Require legislation.
PART II.—INCREASES OF REVENUE.

<table>
<thead>
<tr>
<th>Description</th>
<th>1926</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revision of Estimate for Miscellaneous Revenue</td>
<td></td>
<td>1,000,000</td>
</tr>
<tr>
<td>Navy, Army and Air Force Insurance Fund Surplus</td>
<td></td>
<td>1,100,000*</td>
</tr>
<tr>
<td>Bankruptcy, &amp;c., Fees Bill</td>
<td></td>
<td>350,000*</td>
</tr>
<tr>
<td>Road Fund—From Balances</td>
<td></td>
<td>8,000,000*</td>
</tr>
<tr>
<td>Existing Taxation (classified as &quot;luxury&quot;)</td>
<td></td>
<td>2,000,000*</td>
</tr>
<tr>
<td>St. David's Committee grants</td>
<td></td>
<td>800,000</td>
</tr>
<tr>
<td>Post Office</td>
<td></td>
<td>200,000</td>
</tr>
<tr>
<td>Total of II</td>
<td></td>
<td>13,450,000</td>
</tr>
<tr>
<td>Total of Parts I and II</td>
<td></td>
<td>28,715,000</td>
</tr>
</tbody>
</table>

PART III.—FURTHER PROPOSALS FOR REDUCTION OF EXPENDITURE.

<table>
<thead>
<tr>
<th>Description</th>
<th>1926/27</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education*—reduction of provisional Estimate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Health Insurance*—Recovery of cost of Central Administration in addition to Audit and Valuation</td>
<td></td>
<td>700,000</td>
</tr>
<tr>
<td>Navy reduction to £57,500,000</td>
<td></td>
<td>6,700,000</td>
</tr>
<tr>
<td>Army reduction to £42,500,000</td>
<td></td>
<td>2,000,000</td>
</tr>
<tr>
<td>Dominion Marketing Scheme—Postponement</td>
<td></td>
<td>1,000,000</td>
</tr>
<tr>
<td>Total of III</td>
<td></td>
<td>10,400,000†</td>
</tr>
<tr>
<td>Grand Totals of I, II and III</td>
<td></td>
<td>39,115,000†</td>
</tr>
</tbody>
</table>

APPENDIX II.

ADMINISTRATIVE COSTS IN THE CIVIL SERVICE.

DRAFT TREASURY CIRCULAR TO DEPARTMENTS.

Administrative Costs: Cabinet Decision.

Sir,

I am directed by the Lords Commissioners of His Majesty's Treasury to inform you that His Majesty's Government have decided that existing

* Require legislation.
† Plus any reduction on Education.
financial circumstances call for an intensified effort at the present time to secure a further reduction in the cost of administration of the Public Services.

2. His Majesty's Government fully appreciate the results progressively achieved by the persistent attention of Departments to this subject during the past years; but the present situation is such as to demand a special degree of concentration on the problems of general organisation, detailed methods of work and output, so as to accelerate the reduction of staff and other working costs.

3. In the case of any Department, whose existing business may be reduced as the outcome of the enquiry now proceeding into national expenditure as a whole, the consequential relief in administrative charges will be additional to the economies resulting from the general action referred to in the preceding paragraphs.

4. Output.—His Majesty's Government feel confident that they can rely on the whole-hearted co-operation of all grades in the Civil Service in securing the maximum output from every member of the staff. With this in view, Heads of Departments will carefully examine, with their chief assistants, the possibility of saving staff by means of a still greater devolution of responsibility. Furthermore, each officer holding a supervising post in a department should be personally enjoined by the Head of his Department to secure the utmost possible staff saving by means of an increase in the present rate of output.

5. Hours.—His Majesty's Government have, after full consideration, decided that the minimum hours of attendance of that portion of the staff which is at present employed on the basis of a 7-hour day or a 42-hour week shall be extended to 8 hours a day, with a half holiday on Saturday if the state of public business permits. Overtime payments, in the case of those classes who are eligible for such payment, will begin to accrue after 44 hours' attendance in any week. Compensation will not be payable in respect of this increase in the hours of attendance.

6. Methods and Organisation.—It is essential that methods of transacting business should be simplified wherever possible and that every process which is not absolutely vital should be eliminated. Heads of Departments and their chief assistants should make a vigorous and sustained effort to reduce staff costs by personal inspection and examination of the general methods of work, and by impressing on each head of a branch or section his direct responsibility for speeding up the work and for getting rid of every detailed process that is not essential to the business in hand. A detailed survey of forms and returns should be taken in hand with the object of reducing their number as far as possible.

My Lords will be glad to be informed, not later than the February, 1926, of the extent to which reductions of staff have been, or will at an early date be, effected as the result of these measures.
APPENDIX III.

Committee on Navy, Army and Air Force Expenditure.

TREASURY MINUTE OF AUGUST 13, 1925.

The First Lord states to the Board that he has appointed—

Lord Colwyn (Chairman),
Lord Chalmers, G.C.B.,
Lord Bradbury, G.C.B.,

to be a Committee to investigate the expenditure falling upon Navy, Army and Air Votes, and to make recommendations with a view to effecting reductions in the cost of these services and in particular, in priority, to recommend immediate economies on Navy Votes sufficient to meet the additional cost involved by the commencement of the new programme of cruiser construction in the current year rather than in 1926.

Mr. W. R. Fraser will be Secretary and Mr. H. Parker Assistant Secretary to the Committee.

My Lords concur.

REPORT.

To the Rt. Hon. Stanley Baldwin, M.P.,
First Lord of the Treasury.

Sir,

APPOINTMENT, TERMS OF REFERENCE, &C.

1. We were appointed by Treasury Minute of the 13th August, 1925, "to investigate the expenditure falling upon Navy, Army and Air Votes, and to make recommendations with a view to effecting reductions in the cost of these services and in particular, in priority, to recommend immediate economies on Navy Votes sufficient to meet the additional cost involved by the commencement of the new programme of cruiser construction in the current year rather than in 1926."

2. Subsequently we were requested by you, in view of the gravity of the financial prospects for next year, to examine the possibility of reducing the existing provision for the fighting services by several
millions below this year's net Parliamentary provision of £120,500,000 for the three services.
You informed us, however—

(a.) That it was not possible to reopen the recent decision announced to Parliament on the subject of the cruiser construction programme (Cmd. 2476).
(b.) That the question of the Home Defence Air Force expansion scheme would be the subject of specific consideration by a Committee of the Cabinet with reference both to the number of squadrons to be aimed at and the date for completion.

3. We learn that the conclusion of this Committee is that the scheme of expansion to 52 Home Defence squadrons announced in 1923 should remain the goal to be aimed at, but that the Air estimates should be based on the assumption that its completion is to be postponed until the year 1935–36. This recommendation is without prejudice to any reduction or limitation of Air armaments that may be achieved by international arrangement.

4. In the circumstances our original intention of submitting an interim Report on Admiralty expenditure was with your approval abandoned.

PART I.—GENERAL REMARKS ON DEFENCE EXPENDITURE.

Startling growth of Defence Estimates.

5. First and foremost we draw your attention to the progressive growth of Defence Estimates in the last few years. The following table shows the actual net expenditure for 1923–24, the estimates sanctioned by Parliament for the last two years, and the total of the amounts which the Service Departments tentatively put forward to us as their anticipated requirements for 1926:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923–24</td>
<td>111,000,000</td>
</tr>
<tr>
<td>1924–25</td>
<td>115,500,000</td>
</tr>
<tr>
<td>1925–26</td>
<td>120,500,000</td>
</tr>
<tr>
<td>1926–27</td>
<td>127,000,000</td>
</tr>
</tbody>
</table>

We find here an increase of sixteen million pounds in four years, the equivalent of over 3d. on the income tax. The figures are alarming in themselves; they are inconsistent with the Government's conclusion that no great war need be apprehended for at least a decade; and the bill for £127,000,000 or over 2s. on the income tax is presented at a time where there is no real menace on the horizon, when the Locarno treaty has been signed and we are on the eve of proposals for disarmament.
6. The root cause of the collective increase in Defence estimates is in our view the lack of collective, co-ordinating control of Defence policy and Defence expenditure as a whole. We are aware that in 1923 a decision was promulgated under which "questions relating to the co-ordination of expenditure may be entertained by the Committee of Imperial Defence when referred to it by the Cabinet. The Committee, subject to any directions by the Cabinet, will consider such questions in the light of the general defence policy of the Government and of the strategical plans drawn up to give effect to that policy in time of war." But as the figures shew, this has led to no reduction, and we still find a signal lack of co-ordination between the three service Departments. Despite the continuing development of new arms and services we find little evidence that these are regarded as anything but additional to older methods. For example, the present numbers of the Army and the Air Force as shown in Vote A are 10,000 in excess of pre-war numbers, only an insignificant proportion being attributable to Naval requirements.

7. We find no remedy for immediate needs either in the creation of a Minister of Defence to replace the three existing Cabinet Ministers, or in the abolition of the Air Ministry which is urged by the two older Departments. On the contrary, we affirm the necessity for an independent Air Ministry to administer a single, unified Air Service which should carry out all Air work whether for the Navy, Army or central Air Force. We do not think that the estimates of administrative savings which the other two Departments claim would result from its dismemberment would materialise; nor would any such savings compensate for the greater savings which we hope will be secured by the extended substitution of air power as a substantive arm—a development which depends on the continued existence of a separate Air authority, on improved co-ordination between the three services, and on the imposition of collective control. We deprecate, however, the setting up by the Air Ministry of separate machinery for supply services where it can be avoided, and we consider that there is room for further co-operation in this respect between all three services.

8. Whilst we recognize the special value of the employment of Naval Officers as Observers, we see no reason for their employment as Pilots. In view, however, of existing arrangements, reached as a compromise between the conflicting views of the two Services, we recommend that, as a working rule, the future basis on which the Fleet Air Arm is to be manned should be as follows:

(a.) Officers for observation duties with the Fleet Air Arm should continue to be Naval Officers.

(b.) Not more than 30 per cent. of the remaining officer personnel of units of the Fleet Air Arm (i.e., that portion of the Air Force units allocated for Naval co-operation which is normally embarked in carriers) should consist of
attached Naval Officers, though it should be understood that the officers comprising this 30 per cent. will also be eligible for senior appointments in Air Force units connected with the training and maintenance of the Fleet Air Arm.

(c.) The balance of not less than 70 per cent. should consist of Air Force Officers, including a suitable proportion of officers holding short-service commissions, so as to provide an adequate reserve on an economical basis.

(d.) The substitution of Naval ratings for Air Force personnel on carriers should be confined to cases where it is definitely established that a reduction in numbers can be thus effected.

Proposals for imposing Control.

9. In our view, the desired reduction of our Defence expenditure and of the present overlapping of Defence policies can only be secured if the Government fixes a total for National defence as a whole in relation to the needs of the case and the financial position of the country, instead of totals being fixed independently for each of the three services as at present.

10. We suggest that the duty of advising the Government on the total to be fixed for Defence might well be devolved on a standing Committee of the Cabinet, which would necessarily contain the Prime Minister as President, a Chairman as Deputy to the Prime Minister, the Chancellor of the Exchequer and the Foreign Secretary. The three Defence Ministers would appear before the Committee and would present their estimates to it, but should not be members thereof.

The same Committee could be charged with the duty of allocating between the three Departments the total so fixed.

Specific Proposals.

11. We now turn to specific proposals for relieving next year's estimates which we submit as the result of considering each Department's expenditure separately in consultation with the Minister in charge and with officers nominated by him for the purpose. But we desire to say that, though it is practicable to effect reductions for the immediately ensuing years in the ways suggested, some of these reductions are in the nature of things non-recurrent.

12. It is true that very considerable savings (rising in three years' time to nearly £1,000,000 a year) will accrue to Army Votes as the full effect of the new scale of pay becomes operative, but the Army is still living to a large extent on its war accumulation of stores and much of the saving under pay is likely to be absorbed by the inevitable increase in current purchases when the time arrives that consumption has to be replaced year by year, and

[14186]
by the cost of necessary services which have been temporarily postponed by reason of the present financial situation.

13. We are satisfied that the Army is on the whole prudently and economically administered and that the economies which can be looked for from further improvements in organisation are comparatively insignificant.

In the case of the Navy and the Air Service such economies ought to be more substantial.

14. The great confidence which for many years public opinion has reposed in the Navy personnel has resulted in the general administration of the Navy being placed more completely in the hands of sailors than in the case of soldiers and the Army. This tendency has been accentuated during the last few years, with the result that administrative methods have got completely out of touch with up-to-date civilian experience. While the War Office has profited largely by the advice of the expert organisers who have from time to time reported on Army Administration, the professional advisers of the Admiralty have in the main directed their energies to discovering reasons why similar advice in regard to the Navy should not be acted upon. The claim that such questions as the organisation of dockyards, the dimensions and distribution of reserves of *matériel* and the economical use of man-power are professional naval mysteries in regard to which the Navy has nothing to learn from those who have successfully handled similar problems in the commercial world is one which, in our opinion, ought not for one moment to be entertained.

15. Nor in the Air Service either are we satisfied that the taxpayer obtains full value for his money, though in this case the reasons are rather different. The problem here is that of a new and largely experimental organisation, which has been inevitably handicapped not only by want of experience but by frequent changes of Government policy in regard to the strength of the force and perpetual inter-departmental warfare with the older services. On the other hand, we are satisfied that the Secretary of State for Air and the Chief of the Air Staff are working energetically and successfully to remedy these defects, and we look for progressive improvement as experience grows.

16. But the savings which can be effected by the enforcement of necessary and long overdue reforms in Admiralty methods, though considerable, are not likely to do more than provide for the additional charges resulting from the present construction programme during the next few years, and those in the Air service will certainly be insufficient to finance the expansion scheme.

On the basis of existing Government decisions in regard to the strength of the Army, Naval construction and Air expansion, we do not think that it is possible that the annual expenditure on the three services after 1926–27 can be kept within the limit which we propose for that year.

Broadly speaking, Defence expenditure depends on strength,
i.e., the number of ships in the Navy, men in the Army and squadrons in the Air Force. We have not felt ourselves entitled to suggest any radical revision of the existing standards of defence, but we wish to point out that large and lasting economies can only be secured by such revision.

17. Our proposals are shown in tabular form, and their effect, if approved, will be to reduce the grand total for the three Defence Services to £116,000,000.

18. These proposals take no account—
   (a.) Of the possibility of a new general scheme of distribution of the burdens of Imperial Defence between the taxpayers of this country and those of India, the Dominions and the Colonies.
   (b.) Of economies which may be rendered possible by the increasing use of new arms and services as substitutes for older methods rather than as additions or ancillaries.
   (c.) Of economies which may result from a general reduction of standards of defence in the new spirit of Locarno.

PART II.—NAVY.

19. Navy Estimates of recent years have grown as follows:—

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate (net expenditure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923-24</td>
<td>£54,064,350</td>
</tr>
<tr>
<td>1924-25</td>
<td>£55,800,000</td>
</tr>
<tr>
<td>1925-26</td>
<td>£60,500,000</td>
</tr>
<tr>
<td>1926-27</td>
<td>£64,500,000</td>
</tr>
</tbody>
</table>

This is a disquieting growth, particularly in the absence of any addition to the obligations of the Navy or of any instructions for an increase of total strength such as were given to the Air Force.

20. The estimate for 1925-26 showed an increase over that for 1924-25 of £4,700,000, of which £1,320,000 was due to the transfer to Navy Votes of the final charge for pay, rations and matériel of the Fleet Air Arm. While providing for progress on ships already laid down, it included no provision for the commencement of any further new construction, the Admiralty's proposals being under consideration.

21. In July the Government announced a further programme of new construction spread over a period of five years and costing £87,670,000. Full details are in Cmd. 2476.

This programme involved a net increase on the total present provision for new construction (even after allowing for falls in the amount required for the old programme as that programme neared completion) of—

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925-26</td>
<td>£527,170</td>
</tr>
<tr>
<td>1926-27</td>
<td>£3,081,000</td>
</tr>
<tr>
<td>1927-28</td>
<td>£3,076,000</td>
</tr>
<tr>
<td>1928-29</td>
<td>£4,418,000</td>
</tr>
<tr>
<td>1929-30</td>
<td>£5,249,000</td>
</tr>
</tbody>
</table>
Had advantage been taken of the favourable international situation to retard the whole programme for only one year, substantial relief in respect of the old programme would have been available to finance the commencement of the new.

22. In dealing with next year's estimates, we have taken as the starting point this year's estimates, plus the extra cost of new construction, making £63,581,000 in all.

23. When the current year's estimates were introduced, Parliament was informed that a special overhead deduction of two million pounds has been made on the provision for contract work in Votes 8 (Shipbuilding, &c.), 9 (Armaments) and 10 (Works), to discount in advance possible delays in progress of such work (Cmd. 2366). "This reduction in the money provision (Mr. Bridgeman added) is not intended to affect the normal progress of the services to which it applies, and if the delays do not in fact occur, Parliament will in due course be invited to make good the deficiency to such extent as may be necessary."

The Admiralty suggested to us that both for the purpose of this year's requirements and as a starting point for the expenditure in future years, the Navy Estimates should be regarded as £62,500,000 for this year, but we cannot accept this view. Parliament has voted only £60,500,000 net for the service of the Navy, while the Admiralty promised to meet the extra £527,100 for new construction this year out of savings and a Supplementary Vote for a nominal sum only was taken.

We learn that on reconsideration the Admiralty are satisfied that the net Parliamentary provision will in fact be adequate, even allowing for the £527,170 for the new programme.

24. Again, the Admiralty suggested that, quite apart from new construction, Navy Votes would normally have shown increases next year, in the absence of special economies. It is, however, the duty of the Department to avoid any such increases and our recommendations are based on the assumptions—

(a.) That expenditure for this year will not exceed £60,500,000 as voted.
(b.) That expenditure on items other than new construction in 1926 and 1927 will not exceed the provision for this year.

25. After examining the main items of Admiralty expenditure with the assistance of the First Lord and in the light of oral discussions with his officers and written statements submitted with his authority, we have come to the definite conclusion that it is immediately practicable to reduce the Navy Estimates to a maximum figure of £57,500,000 for 1926-27.

26. We have, with your approval, endeavoured to make this reduction in co-operation with the Board of Admiralty, but we have not been able to reach agreement.

27. The Admiralty view is that the general standard of defence policy is laid down for them by the Government and that it is for
the taxpayer to foot the bill as presented by the Admiralty or for the Government to modify the policy.

Admittedly the "standard"—as used in the phrase "one-power standard"—is laid down by the Government. But, as pointed out by the Geddes Committee, "the translation of that standard into £ s. d. in the Estimates admits of great variation according to the views of the chief naval advisers and specialists."

We add that the figure of £57,500,000 which we propose is a sum three and a half millions more than was required in 1923-24, and some seventeen millions more than the combined Naval expenditure of France, Italy and Japan.

28. Our general conclusion is that the Government's decision that estimates are to be framed on the basis of at least a decade's freedom from a great war is inadequately reflected in the figures of Admiralty demands.

For example, while the number of Capital Ships and Cruisers has been greatly reduced since 1914, as is natural with the removal of the German menace, the number of ships in full commission has risen disproportionately. Each battleship of the Queen Elizabeth class in full commission costs £800,000 a year to maintain, exclusive of non-effective charges, and she is, of course, not the latest type.

29. The Admiralty have, however, made or suggested economies, e.g., as a result of the Committee presided over by Vice-Admiral Sir Frederick Field, which we welcome. They include the reduction of the complements of 4 Battleships of the Iron Duke Class, the scrapping or reduction of various obsolescent Cruisers, Submarines, Depot Ships, Destroyers, &c.; the reduction of the Rosyth and Pembroke Dockyards to a care and maintenance basis; modifications in programmes of Armament, &c., work.

30. While, however, we acknowledge these economies, we find it difficult to gauge their precise effect on the problem before us, as they are expressed by the Department as reductions on a hypothetical programme of work for 1926 and not on the authorised expenditure for 1925. They mean a "saving" of something over two million pounds on a forecast of £66,700,000 for 1926, reducing the forecast to £64,432,100, or—if the overhead deduction of £2,000,000 is again made—£62,432,100. And we understand that this figure is still being cut down.

Some, therefore, of the economies made by the Department do represent a real cut below this year's provision. In certain instances they are allowed for in our recommendations; in others they should be available to supplement them.

31. Our specific proposals will be found in tabular form below. If any of these do not commend themselves, it will be necessary, unless the Admiralty is able to suggest alternative methods, to secure the required economies by a further reduction on Vote A, to be effected by passing ships to reserve.

32. If the actual size of the Navy and the rates of pay of
officers and ratings are determined by the standard laid down by the Government, it follows that economy of expenditure can only be secured under three heads:

(a.) Reduction in numbers of personnel by better distribution and by restriction of numbers of ships in full commission.

(b.) Decreased expenditure on *materiel* by dispensing with unnecessary reserves of ammunition and stores and economy of consumption.

(c.) Saving of administrative charges by better organisation.

Very valuable suggestions have been made under each of these heads by the Committees which have investigated Navy expenditure (viz., Sir Eric Geddes’ Committee on National Expenditure in 1921 and Lord Weir’s Committee on Admiralty Office and Establishments in 1923).

While something has been done by the Admiralty to give effect to these recommendations, we are satisfied that very extensive further economies are possible under all of them.

33. Under the head of Manning we endorse the view of the Geddes Committee that a large reduction in numbers is possible.

The war complements of ships are based on the quarter bills, which represent in theory the full fighting complement of the ship, but in practice include a large number of supernumeraries (cooks, personal retinue of officers, &c.), to whom duties in action are assigned not so much because their services in action are required as because they are there.

Even accepting the total of the quarter bills as representing the actual active service requirements, they, *ex hypothesi*, include a very considerable excess over and above the strength necessary to work the ships under peace conditions and should (apart possibly from some not very numerous technical groups) be amply sufficient to provide this strength and also a considerable peace margin for training, crossing reliefs, &c.

But, in fact, the peace complements of ships in full commission are from 85 per cent. to 100 per cent. of the war strength, while in addition (for the fleet as a whole) a margin at present amounting to about 13,490 is expressly provided for training, crossing reliefs, &c.

The net result is that the numbers maintained in peace time yield what the Geddes Committee called an "unallocated surplus" over and above the numbers immediately required on mobilisation. It is no answer to explain, as the Admiralty do, that these form part of the peace margin.

By a revision of the existing peace-time arrangements both as regards the manning of ships in peace time and the margin for training, &c., we are satisfied that it would be possible to bring peace requirements into a more reasonable relation to war requirements with a considerable saving in man-power.
34. Further, the introduction of a short-service system for naval ratings would effect large ultimate reduction on pension charges, and by increasing the number of reservists would also make it possible to rely on reservists to a far greater extent for mobilisation needs.

35. The Royal Dockyards call for special consideration, though here our task has been lightened by the action of the Admiralty in reducing Rosyth and Pembroke Dockyards to Care and Maintenance.

We were anxious to compare the cost of the work done in Admiralty establishments with that of analogous work carried out in private Yards. We found such a comparison difficult in view of the methods adopted in the Royal Yards for estimating and costing.

It, therefore, appeared to us desirable to devolve on experts an investigation into the Royal Dockyards and their organisation, administration, personnel, &c.; and, with the approval of the First Lord of the Admiralty, we appointed Sir John Biles, K.C.I.E., Mr. W. L. Hichens and Sir Holberry Mensforth, K.C.B., C.B.E., to be a Committee to report on these matters. We have asked this Committee to consider, in the course of its enquiry, the contention so frequently put forward that the management of the Royal Dockyards should be brought more into line with that of outside industrial undertakings.

We are not yet in possession of the Committee's recommendations, which we shall submit to you in due course, but we have a lively hope that they will be fruitful both in increased efficiency and in reduced expenditure.

36. Our recommendations take no account of the larger reductions foreshadowed in paragraph 9 of our Report or of any reductions which might result from a new Conference on Naval Disarmament.

Table I.—Navy.

(A.) Oil Fuel Reserve (purchase and storage).

Saving proposed: 1926, £1,262,000; 1927, £1,417,000.

In view of the renewed decision of His Majesty's Government that the estimates of the Admiralty need not provide for the participation of this country in a great war for at least ten years, we consider that the purchases of oil fuel can safely be reduced in 1926 and 1927 by at least 300,000 tons in each year below the figure for 1925. At £2 15s. a ton, which is the figure given to us by the Admiralty, this should save £825,000 a year. Further, such a reduction in purchases would enable an immediate stop to be put to the provision of additional oil storage accommodation, except where contract work is so far advanced that curtailment is not possible without heavy claims for compensation. Applying
this principle, the Admiralty tell us that their expenditure would be £160,000 in 1926, but only £5,000 in 1927, saving £457,000* in 1926 and £592,100 in 1927 in comparison with this year’s provision of £597,100 in Vote 10.

(Such a decision would save £150,000* this year.)

This would give a total saving of £1,417,000 in 1927 and of a lesser sum (£1,262,000) in 1926.

These figures are based: (a) on the maintenance of the existing reserves; (b) on the allotment for peace consumption next year of the same amount as is provided this year; (c) on there being no reduction in the number of ships in full commission.

(B.) Manning.

Saving proposed: 1926, £500,000; 1927, £1,000,000.

Apart from the general considerations mentioned in paragraph 33, the manning requirements have been increasing on account of new construction. The Admiralty plans in regard to the Fleet involve increases, in addition to those specifically due to building the new ships, in respect of manning them. The new ships require more men than those they replace, and further either they replace ships now in reserve or scrapped some time ago, or the replaced ships go into reserve and still require substantial crews.

This process should stop and the increases contemplated should be set off in other ways—by passing more of the older ships to reserve or to scrap, or otherwise.

The numbers actually on the pay roll should be reduced by at least 5,000 in 1926 either (i) by a drastic reduction of the margin † provided, in addition to peace complements, for training, crossing reliefs, leave, etc., etc., (ii) by reducing the standard of manning the ships, with particular reference to the non-fighting personnel, or (iii) if necessary, by reducing to reserve some of the ships in full commission.

* Since we reached this conclusion we learnt that the Government has given authority for new storage installation at Pembroke.
† The Admiralty informed us that an estimated allocation of the margin for a normal day on the basis of this year’s Vote A, i.e., the maximum number to be borne in 1925–26, would be—

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crossing reliefs and foreign service leave</td>
<td>3,500</td>
</tr>
<tr>
<td>Sick</td>
<td>1,490</td>
</tr>
<tr>
<td>Prison and detention</td>
<td>120</td>
</tr>
<tr>
<td>Training in all branches</td>
<td>6,180</td>
</tr>
<tr>
<td>Men within three months of completing engage-</td>
<td>1,650</td>
</tr>
<tr>
<td>ments</td>
<td>550</td>
</tr>
<tr>
<td>On leave from depots</td>
<td>13,400</td>
</tr>
</tbody>
</table>

(This excludes 3,750 marines in barracks.)
or by scrapping or reducing to Care and Maintenance some of those now in reserve.

The full saving of a given reduction of men, if achieved by curtailment of new entries, is only realised in the second year. Our saving is based on an estimated average cost of £191 a head, which may prove too high; but the reduction proposed of 5,000 men is a modest one, and there should be no difficulty in saving a full half-million in 1926 and a million in 1927.

(C.) Officers.

Saving proposed: 1926, £50,000; 1927, £100,000.

Reductions in manning requirements should be accompanied by a reduction in officers. Apart from this, we conclude that the number is excessive. Recent promotions have been made in excess of establishment, while large numbers of officers can readily be spared for the Fleet Air Arm. We make no precise recommendation here, as the whole question of the establishment and promotion of officers is under consideration by an Admiralty Committee, but a minimum saving of £100,000 should eventually be secured.

(D.) Naval Stores.

Saving proposed: 1926, £500,000; 1927, £500,000.

This can be effected by reducing the amount of the authorised reserve and by reducing purchases until the revised authorised reserve is reached. The value of the existing stocks is shewn as approximately ten million pounds. A greater margin is provided here than any outside business would allow irrespective of any question of reserves of specialised war stores.†

(E.) Victualling and Clothing Stores.

Saving proposed: 1926, £250,000.

On the same lines as for Naval Stores. The value of the existing stocks is shewn as about two million pounds.

(F.) Armaments.

Saving proposed: 1926, £1,000,000; 1927, £1,000,000.

The Admiralty spend at present over four millions a year net on armaments. A substantial reduction should be made here, and the following are typical instances of the possibilities of saving.

† This recommendation is based on an interim Report from our Dockyard Sub-Committee.

[14186]
We see no reason in existing circumstances why the provision of the reserve outfits and equipments for vessels under construction should not be delayed.

We also learn that with reserve stocks worth £3,500,000 and £14,000,000 respectively, the Department are still spending at the rate of about £500,000 a year both on cordite and on torpedoes, which we consider excessive.

(G.) Dockyard Work (other than new construction and the reconstruction of Aircraft Carriers).

Saving proposed: 1926, £500,000; 1927, £900,000.

The scrapping of old ships should enable a large reduction to be made in the amount of repair work done in the Dockyards. (See Cmd. 2554.)

(H.) Fleet Air Arm.

Saving proposed: 1926, £600,000; 1927, £400,000.

This item excludes the expenditure on Aircraft Carriers and their maintenance.

The Air Ministry suggested to us that substantial economies were possible by deferring the formation of new flights, by reducing the reserves of matériel, by limiting the number of flights per carrier, and by postponing the completion of Carriers under reconstruction. The Admiralty have subsequently expressed a willingness to meet the Air Ministry over some of these points, and in addition have suggested the further employment of a number of non-officer pilots to which the Air Ministry are ready to agree.

Economies already agreed between the two Departments amount to just over £400,000, and we are satisfied that a reduction of £600,000 can be achieved. Moreover, substantial additional reductions, both on Navy and Air Votes, would accrue if the Air Ministry’s control over the Fleet Air Arm were strengthened.

This topic is dealt with further in our general report (see paragraph 8).

(I.) Aircraft Carriers, &c.

Saving proposed: 1926, £350,000; 1927, £250,000.

Apart from expenditure falling on the Vote for the Fleet Air Arm, there is heavy expenditure falling on Navy Votes in respect of maintaining Aircraft Carriers in full commission.

This amounts to £728,430 for the current year, while £198,400 is provided for formation of crews for ships paid off for reconstruction and large repair.
Further, there is very large expenditure on recon­structing "Courageous" and "Glorious" as Aircraft Carriers. This amounts to £668,300 this year, with £974,000 proposed for 1926 and £897,500 for 1927. We see no reason why the reconstruction of "Courageous" should not be retarded and "Glorious" postponed with large relief to Navy Votes.

Further, the reconstruction of "Furious" is now complete and the £198,600 spent this year (in excess of the estimated provision on reconstruction) will not be required next year.

(K.) Miscellaneous Automatic Savings.

Saving proposed: 1926, £738,000; 1927, £980,000.

(i.) Reduced rates of pay for new entrants.

(ii.) £350,000 voted, but not required, for marriage allowance for naval officers.

(iii.) New Construction Programme.—The new programme for next year is £3,724,000, while for 1927–28 it is £8,526,000. The total new Construction programme for both these years (i.e., old and new programmes) is roughly the same, £10,700,000. The Admiralty in the White Paper (Cmd. 2476) said: "In the light of all past experience it is reasonable to anticipate that payments will not fall due at the above rate and a deduction of 10 per cent. or more over part of the programme will almost certainly be made in order to arrive at the Estimates laid before Parliament in any given year." This deduction has already been discounted in the case of the old programme by the overhead deduction referred to in paragraph 23, but account should be taken of it in respect also of the new programme.

(L.) Admiralty Office.

Saving proposed: 1926, £70,000; 1927, £70,000.

The present expenditure is £1,261,100; a reduction of at least £70,000 should be possible, especially if the recommendations of Lord Weir's Committee are carried out in letter and in spirit. In particular we endorse the observations of that Committee on the excessive increase in the Naval Staff and the duplication of effort involved thereby.

(M.) Dockyard Police.

Saving proposed: 1926, £50,000; 1927, £50,000.

Substantial savings have already been effected by replacing Metropolitan Police by Royal Marine Pensioners in various Naval Establishments. But at the home Dockyards the Police still cost £156,000 a year.
(N.) Marines.

Saving proposed: 1926, £130,000; 1927, £210,000.

The Depot at Deal, which costs £66,000 a year, should be closed. The Admiralty stated that only a small economy would be secured by such a step, assuming that the strength of the Marines—based on mobilisation requirements—remains as at present.

Having regard to modern developments and to the improbability of war we do not think reduction in this Force has gone far enough and we propose a further reduction of at least 1,000 men.

PART III.—ARMY.

37. Army Estimates of recent years have been as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923-24</td>
<td>46,229,680</td>
</tr>
<tr>
<td>1924-25</td>
<td>45,000,000</td>
</tr>
<tr>
<td>1925-26</td>
<td>44,500,000</td>
</tr>
<tr>
<td>1926-27</td>
<td>44,500,000</td>
</tr>
</tbody>
</table>

Alone among the service estimates, those of the Army show a reduction, and to this extent the scope for economy, in the absence of any general revision of standard, is correspondingly less.

38. Nevertheless, the Department recognise the need for further reductions, though they were not able to propose to us a figure which we could accept. As a result of decisions already taken by the Department, savings amounting to slightly over £700,000 will accrue next year. Further reductions can be secured by the exercise of economies in matériel, &c., notably by a measure of deferment in anticipation of the savings on new rates of pay for new entrants, which in the course of three years rise to nearly £1,000,000 a year. By these means, and by a small revision of numbers, we consider that a total of £42,500,000 should suffice for the next financial year. If our proposals fail to produce the full necessary saving, a further temporary reduction in numbers—until such time as sufficient savings accrue from the new scales of pay—must be faced.

39. Our detailed proposals,* which will be found in tabular form below, take no account of the larger economies foreshadowed in paragraphs 9 and 17 of our Report.

40. We have not allowed for any saving which would result from a reduction in the standard of mobilisation reserves maintained for the Expeditionary Force, but we think that the question of reduction should be carefully considered by the Government, as

* These take no account of economies which should result from the recommendations of Sir Arthur Duckham's Committee on the Expenditure of the Fighting Services generally on Research, Design and Experiment.
we feel that the main reason for the maintenance of these reserves on their present scale was their existence as a war legacy.

A reduction in the standard of reserves would throw up a large surplus. Even if a portion of this has little disposal value, current purchases could be relieved and there would be a considerable consequential saving on storeholding staff.

**Table II. — Army.**

(A.) *Savings already effected or proposed by the Department:* £708,000.

(i.) Reduction of the Corps of Military Accountants, £200,000.

(ii.) Reduced rates of pay for new entrants:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926–27</td>
<td>213,000</td>
</tr>
<tr>
<td>1927–28</td>
<td>526,500</td>
</tr>
<tr>
<td>1928–29</td>
<td>988,500</td>
</tr>
</tbody>
</table>

rising eventually to £2,580,000 a year.

(iii.) The Department propose a saving of £160,000 by reduction of armament orders.

(iv.) Reduction of amount required for terminal war charges (see page 227 of Army Estimates), £135,000.

(B.) *Land Purchase:* £300,000.

Provision this year is £533,500. This includes a terminal charge of £250,000 for Deptford market and also a sum of £125,000 on account of proposed purchases of land at Salisbury Plain. On general financial grounds, this latter expenditure should be deferred, at least until the heavy commitments in respect of Catterick Camp are reduced.

(C.) *Stores:* £300,000.

Large stocks of provisions, petrol, medicines and surgical instruments, clothing, building materials and stores are maintained, apart from technical warlike stores. The valuation of these stocks runs into many millions, and in many items is disproportionate to the annual consumption. Large savings should accrue by a reduction in the amount of the authorised reserves, with a consequential reduction in purchases.

(D.) *Armaments:* £60,000.

Further reduction of orders, notably on small arms.

(E.) *Inspection:* £80,000.

The present net cash expenditure of £536,000 is excessive.
(F.) Cavalry: £100,000.

The annual cost of this arm is approximately £2,000,000 a year. In view of modern developments, e.g., Tanks, &c., we regard expenditure on this scale as quite unjustifiable and we think that the policy of reducing numbers by "rolling up" existing regiments (which has already been applied to certain regiments) should be extended to the cavalry generally.

As a result of retrenchment in India two regiments have been or are being added to the home strength at a cost in this year's estimates of about £200,000 and we understand that a third is likely to follow. We see no reason why economies in India should impose an additional burden on the home taxpayer, and these regiments should either be disbanded or dealt with immediately in accordance with the foregoing general plan of reduction by amalgamation. The ultimate savings should be very substantial, but they will mainly accrue in years later than 1926.

(G.) Margins on Establishment: £100,000.

In the modern Army a large proportion of officers and men are under courses of instructions away from their units. In general such personnel should not be supernumerary to the strength of units or (in the case of specialists) to the corps to which they belong.

(H.) Colonial Corps: £100,000.

The local troops in Malta, the West Indies and the Channel Islands should be paid for by the local Governments or be disbanded.

The non-local troops in the West Indies and the West African regiment should be paid for from Colonial funds.

In neither case do we allow for the full saving in the first year.

(I.) Numbers, &c.: £250,000.

The above savings amount to £1,748,000, leaving £252,000 towards a total saving of £2,000,000.

Some of this may be found by deferment of works services; some by reductions in the staff of the War Office and of Commands.

The balance should be found by a reduction of numbers. The full £250,000 would involve a curtailment of recruits to the number of about 3,000 on an average annual intake of 25,000.

This suggestion of course applies only to recruiting in 1926 and does not affect the normal intake of recruits in future years. The reduction should be spread as evenly as possible over all units or corps and would not involve disbandment of existing units.
### Part IV.—Air Force.

41. Air Estimates show a large and continuous growth of recent years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Expenditure</th>
<th>Votes Voted 1924-25</th>
<th>Votes Voted 1925-26</th>
<th>Initial Sketch 1926-27</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923-24</td>
<td>£10,505,304</td>
<td>14,861,000</td>
<td>15,513,000</td>
<td>18,000,000</td>
</tr>
</tbody>
</table>

These are net figures, excluding Middle East expenditure, which is provided in Class V of the Civil Service Estimates. The increase in the net figures is even larger than appears, seeing that in 1925-26 the final charge for the Fleet Air Arm (£1,320,000) was transferred from Air to Navy Votes.

42. The primary cause of the increase in Air expenditure is the definite instruction given to the Department in 1923 to form a Home Defence Force of 52 squadrons. This force was to be additional to the squadrons required for Navy and Army co-operation and for the overseas obligations of the Department, and the decision involved nearly trebling the strength of the Air Force.

43. In view of the decision of the Government, reached after our appointment, that the scheme of expansion should be carried out in its entirety, although the date of completion was to be postponed till 1928, we see no prospect of a positive reduction in Air Votes below this year's total; rather, our task has been to minimise the increases falling due as a result of Government decisions of policy. The effect of delaying completion of the scheme, particularly in the early years, is to a certain extent neutralised by existing commitments; moreover, although the scheme was nominally due for completion in 1928, we understand that it would not, in fact, have been completed until a year or two later.

44. We found, as we have already remarked in paragraph 15, the Secretary of State and the Chief of the Air Staff quite alive to the necessity for economy, but our investigation has shown that in the realm of administration further savings could be effected by a thorough overhaul of the interior economy of the Department.

45. In particular, we would indicate the following items on which savings should be sought:

(i.) *The Cost of the Air Ministry.*

The net estimate is £751,000 and is disproportionate to the size of the Force; an early opportunity should be taken for a thorough review.

(ii.) *Air Force Establishments.*

We were impressed by the numbers of Air Force personnel employed otherwise than with squadrons.

The number of officers in store and repair depots appears excessive.
The Pool or margin maintained for emergencies at a cost of about £400,000 a year should be drastically curtailed, as is, we understand, in fact, the intention of the Department.

We are glad to note that all these establishments are under review by an Air Ministry committee which has already effected some reduction.

(iii.) Works and Buildings.

The net expenditure in the current year (after deducting £200,000 for probable underspending) is estimated at £2,572,000. The size of this Vote in itself offers considerable scope for reduction, but, apart from this, economy should be possible by revision of general standards. It is very important that this new Service should not proceed on lavish lines.

(iv.) Mechanical Transport.

The total cost of this Service is excessive, as is admitted by the Department, who hope to effect considerable economies.

(v.) Technical and Warlike Stores.

The gross and net totals of Vote 3 are £8,581,000 and £5,650,000 respectively, and an increase of the net figure for next year was originally foreshadowed. The bulk of the expenditure falls on Sub-head A—Aeroplanes, Seaplanes, Engines and Spares—which accounts for £5,864,000 gross. In view of the spreading of the expansion scheme over a longer period, and of the high rate of obsolescence of this material, a great deal of this expenditure may prove nugatory, particularly in regard to the reserves of aircraft and engines.

(vi.) Stores.

As regards petrol the Department adopts what seems to us the proper course of requiring contractors to hold at their expense a reserve at its disposal; this policy might be adopted to a greater extent for other stores with a resultant reduction in the reserves held by the Department. Such an arrangement would give an immediate benefit in cost of storekeeping and relief of current purchases.

46. We have discussed the above and other proposals for economy with the Secretary of State for Air, and in all the circumstances we recommend that the net Air Estimates for next financial year should be £16,000,000. This figure the Secretary of State is prepared to accept.
47. In dealing with the voluminous material which we have had to analyse we have received the greatest assistance from our Secretaries, Mr. W. R. Fraser and Mr. H. Parker of the Treasury, who have worked indefatigably and with a complete mastery of the subject-matter. We cannot conclude our report without an expression of our gratitude to them for the help they have given us throughout our enquiry.

We have the honour to be,

Sir,

Your obedient Servants,

COLWYN (Chairman).

CHALMERS.

BRADBURY.

W. R. FRASER (Secretary).

H. PARKER (Asst. Secretary).

December 23, 1925.