

HISTORY OF THE CARLISLE STATE MANAGEMENT
SCHEME 1916 - 1974

By
H.B. WILSON

ANNEX FOR OFFICIAL EYES ONLY

CONTENTS

Part of History of the State Forests	1 and 2
Original Report of Working Party on State Management, April 1916.	3
1917-1920: General and Changes, and Payments to which entitled.	
(a) Details of Grants	4.1
(b) Working Expenses	4.2

ANNEX FOR OFFICIAL EYES ONLY
TABLE OF CONTENTS.

	<u>Paragraphs</u>
Notes by Sir Edgar Sanders	1
Fourpenny Beer	2
Mr. Herbert Morrison and Extension of State Management	3
New Towns	4
The Old Central Office	5
"The Collar on the Pint"	6
First Grant of Authority for the Sale of Liquor	7
Later Grants of Authority	8
Background to Abolition	9
Mr. Adams	10
Disposal of the Scheme	11
Sale of the Brewery	12

APPENDICES

Text of Notes by Sir Edgar Sanders	A and B
Second Report of Working Party on State Management, April 1962.	C
STAFF: Number and Classes, and Payments to which entitled.	
(a) Carlisle District	C.1.
(b) Scottish Districts	C.2.

HISTORY OF THE CARLISLE SCHEME

ANNEX FOR OFFICIAL EYES ONLY

Introduction

It was agreed that the history of the Carlisle Scheme should be written with the possibility of publication in mind. This Annex covers some points (the list is by no means exhaustive) which it seemed necessary or expedient to leave out of the main document, but which may be worth adding for the Departmental record. References are made where relevant to paragraphs of the main history.

1. Notes by Sir Edgar Sanders

(Paragraph 30, last sentence). The attached copies of contemporary notes by Sir Edgar Sanders - culled from records at 19 Castle Street - give examples of his negotiations with the licensees who were being taken over: though his dealings with the Irvings do not perhaps fall into the category of negotiation.

2. Fourpenny Beer

(Paragraph 69, footnote 29). Some years ago, in a context which I cannot now recall, I came across Home Office papers of the 1930s containing a letter from Sir A Maxwell to the then General Manager which began "The Secretary of State does not like your fourpenny beer". The correspondence cannot now be traced either here or at Carlisle, but so far as I recall, the then Home Secretary, Sir John Gilmour, was upset, not by the quality of the beer, which must have been a fairly watery brew, but by some complaint which had reached him through political channels that the Scheme was using its privileged position to undercut the brewing industry.

3. Mr Herbert Morrison and Extension of State Management

(Paragraph 93, third sentence). In a minute of 14 August 1941, the Home Secretary (Mr Herbert Morrison) said to Sir A Maxwell "I wish favourably to consider putting a case to Cabinet for extending State Liquor Carlisle etc Scheme all over country. Please prepare draft stating case". After a full study of the question in the light of the circumstances then obtaining, which bore no resemblance to those which had led to the initial establishment of the Scheme, the Department could find no sufficient grounds on which to base a case, and the Home Secretary did not pursue the matter. At this date, this would presumably no longer be an official secret, but the Home Office papers (866869/67) had not at the time of writing gone to the Public Record Office.

4. New Towns

(Paragraphs 97 and 98). State Management in new towns was sparked off by proposals to that end made by a deputation which Mr Chuter Ede received in 1946 or 1947 from Mr Seebohm Rowntree, Dr J J Mallon and others. Sir A Maxwell minuted the paper to the effect that he wished he had thought of it himself. This again would no longer be an official secret, but I am told that the Home Office papers which I should need to check references and dates cannot be traced, and the point is in any event not strictly relevant to a history of Carlisle.

5. The old Central Office

(Paragraph 107). The penultimate sentence puts it mildly!

(Paragraph 110). It was not the local management, but the old Central Office, which, as we found during the debates on the 1949 Licensing Bill, had been obscurantist about darts.

6. "The Collar on the Pint"

(Paragraphs 118-25). For much of the Scheme's history, the then Superintendent of Managed Houses (Mr Penson), no doubt with the concurrence of the old Central Office, took the line that it was not practical politics to ensure that managers returned an adequate "natural surplus". It took a long and intensive campaign by the relevant Home Office Departments, in particular Establishment, with the help of Statistical Branch (this was one of Mrs Gibson's first assignments on joining the Home Office) and the vigorous co-operation and support of the then Superintendent of Managed Houses (Mr Stewart) to put matters right.

7. First Grant of Authority for the Sale of Liquor

(Paragraph 127). The question whether the Home Secretary should be recommended to grant an authority to these premises (Carrow House Hotel) was naturally considered by the State Management Districts Council. The minutes of the relevant meeting, 9 July 1957 (copy in SMD 207/2/2(S)) record that on a vote being taken of those present (other than the Chairman, Sir Frank Newsam) Sir Charles Cunningham, Mr Potts and Mr Shutte (one of the brewer members) supported the Local Advisory Committee's recommendation that the application should be rejected: Sir Austin Strutt and Colonel Porter (the other brewer member) "were absent when the vote was taken."

8. Later Grants of Authority

(Para 131). Where an authority for the sale of liquor was granted in the later years of the Scheme, there was usually an understanding that the successful applicant would obtain supplies of liquor from the Scheme of a specified amount.

9. Background to Abolition

(Paragraphs 141-43). Under the 1959-64 Conservative administration, the Home Secretary and the Secretary of State for Scotland gave some thought to the future of the State management schemes, including their abolition or modification, and in 1960 a working party of officials from the Home Office and Scottish Home and Health Department, was appointed, under the chairmanship of Mr E H Gwynn, CB then Assistant Under Secretary of State in charge of the General Department of the Home Office, to consider and report on:-

- (1) "the legislative and practical steps required to bring to an end the system of State Management in England and Wales and/or in Scotland and
- (2) the possible means, and the probable effects of withdrawing in whole or in part restrictions on the sale of liquor in State Management Districts by private persons who obtain licences or certificates from the licensing justices or the licensing court".

On (2) above, on which the working party were asked to report first, the Government took no steps beyond those in the Licensing Act 1961 to remove from the Home Secretary's power of veto the sale of drink under the residential or restaurant licence created by the Act, and the supply of liquor in a club which obtained a registration certificate (see paragraphs 128-30). On the more fundamental issues of (1) above which the working party felt justified in treating as a matter of less urgency (since it was clear that there was no early prospect of Government action)

the working party reported in April 1962. A copy of their report is attached. After considering and rejecting various other possible methods of disposal, including sale to a public board or non-profit making concern, the working party, on the advice of the Inland Revenue Valuation Department, concluded that the best method of disposing of the main assets of the Carlisle Scheme would be sale by public auction. However, the alternative of sale by inviting tenders should be kept in mind in the light of circumstances at the date of the contemplated (and, as indicated in the main memorandum, this was the method adopted in the event). Other recommendations which were implemented in the actual disposal were:-

- (i) the sale of the Carlisle undertaking should be handled by agents
- (ii) the main properties should be sold in lots
- (iii) the legislation should provide that the Schemes' hotels and public houses should be treated, for the purposes of the general licensing law, as if they were existing licensed premises.

The 1959-64 Government decided that if they were returned at the 1964 general election they would introduce legislation to abolish the Scottish schemes (and, as indicated in paragraph 143, this was stated in the 1964 Scottish Conservative Manifesto). In fact a first draft of a Scottish "abolition" Bill was prepared - which in the event gave some useful leads for the 1971 abolition Bill.

The Government also decided however that they would not abolish the Carlisle scheme as it was popular locally. It is therefore one of the "ifs" of history that had the Conservatives been successful in the 1964 election (as they nearly were) they might have publicly nailed their colours to the Carlisle mast and the scheme would have continued to survive any future political ups and downs.

In 1969, as a post Fulton activity, the Government set up an inter-departmental group of officials to review the possibilities of hiving off various functions from Central Government. State Management was an obvious candidate, and the Treasury and CSD prepared a paper in consultation with the Home Office and Scottish Home and Health Department. The conclusion reached was that there was a strong case on economic grounds for selling the Schemes to the private sector. In early 1970, Sir William Armstrong sent a copy to the Prime Minister (Mr Harold Wilson) as the first substantive report on a specific case for hiving off. The Prime Minister said that he did not want to see any change in the State Management Schemes. If any paper were circulated to Ministers on the report, the decision against change should be expressed in the passive mood and not attributed to him (SMD 61/1/1/49).

In August 1970 the "hiving off" report was brought to the notice of the new Prime Minister (Mr Heath) - to the surprise of the Home Office, (who were not consulted) since abolition of State Management was already under consideration on policy grounds. Mr Heath commented "If we are going to do this, as I think we should, we had better get it out of the way quickly" (SMD 61/1/1/52).

10. Mr Adams

One point of a different nature has not been referred to at all: namely the troubles with the last but one General Manager (Mr Adams). Though much of it was public knowledge at the time and may still be remembered in Carlisle, where Mr Adams lives, the matter is hardly suitable as yet for any publication to which no "privilege" would attach from the point of view of the law of libel.

11. Disposal of the Scheme

The following matters cannot be published in view inter alia of the undertaking that details would not be disclosed of unsuccessful tenders (see paragraph 177) Slater Walker Limited put in a tender of £4,761,000 for all the lots, saying that they wanted "all or nothing". Their bid was so far below the total of the highest tenders (£5,627,000) that it was unnecessary to consider the local monopoly aspect of the matter.

This aspect was considered in the light of the fact that one brewing firm, Greenall Whitley & Company, had submitted the highest tenders for groups 2 and 4 together and for the Central Hotel. It was decided that the problem did not arise since the two groups plus the Central Hotel comprised only 49 licensed premises out of a total of 157, and since the groups were spread over the District 2 and 4 together gave no monopoly in Carlisle or any other town in the District. Moreover, to let Greenall Whitley & Company have only one group would have meant getting some £257,000 less than the sum of the highest tenders for the two groups. The decision was cleared with the Minister at the DTI (Sir Geoffrey Howe) who was concerned with monopoly questions in relation to the brewing industry. There were two equal highest bids (£15,000) for the Kildare Hotel, Wigton, from the Scottish and Newcastle Breweries and Bass Limited respectively. The former had submitted the highest tender for group 1, with which the Kildare was "associated" and the Department recommended that their bid should be accepted. The Parliamentary Under Secretary of State (Mr Lane) thought however that the premises should go to Bass, as a slight further spread of ownership "otherwise they get nothing, yet they have bid lustily". On the other hand, when Bass and a local property firm put in equal highest bids (£50,000) for the Bluebell Inn, Carlisle, it was decided to give the local firm the preference.

As regards local breweries, the Workington Brewery tendered for groups 1, 3 and 4 conditional on receiving loan assistance from the Government. Their tenders were so far below the highest that it was unnecessary to consider the point. Jennings Brothers, Cockermouth, did not tender for any groups but put in the highest tenders for each of three separate public houses (see p.16 of Cmnd 5761). The Workington Borough Council expressed an interest in acquiring the Green Dragon Hotel, Workington, on the grounds that (a) it would be a "counter ploy" to the Government's denationalisation of the Scheme and if a subsequent Government decided to renationalise, local authority ownership of the premises meanwhile would facilitate handing them back to the Government; (b) the hotel had a good reputation and the Council would be able to ensure that standards were maintained. The Deputy Town Clerk had initial doubts about the Council's powers to acquire and run a hotel, but said later that it would be done under powers conferred by section 103 of the National Parks and Access to Countryside Act. The General Manager acceded to the Council's request for the hotel's trading accounts for the past 3 years but nothing more transpired and the premises were sold to John Smith's Tadcaster Brewery Limited for £46,310 (nearly twice the Valuation Office's valuation, and about two and half times that of the Agents).

12. Sale of the Brewery

As may be supposed, the problems encountered with Mr Lewis were a good deal more troublesome than can as yet be disclosed in an open history of the matter.

However the only other tender for the brewery was for no more than £43,210 from Eden Construction Limited, and even that was withdrawn when the firm were successful in two other tenders. Greenall Whitley and Company who, as indicated elsewhere, tendered successfully for groups 2 and 4 and the Central Hotel, were asked through

the Agents if they would like to make an offer for the brewery, but said they were not interested.

In the circumstances, and for the reasons outlined in paragraph 170, it was reluctantly decided to accept Mr Lewis' tender, Mr Lane (Parliamentary Under Secretary of State) minuted the submission "I don't like the sound of this but I agree the absence of other tenders makes the risk just about worth taking" SMD 70 1/9/87. Announcement of acceptance of the tender (which was deferred until the 10% deposit was received from Mr Lewis) was made in reply to a Question by Mr Ron Lewis MP on 12 February 1973 (Hansard, Written Answers, Col.268).

When Mr Lewis failed to complete the purchase on the due date (26 June 1973) he gave as one main reason difficulty over payment for the bottles and casks which he was required to take over at valuation under the conditions of sale. The Department ascertained that the original valuation, (£27,000) was in fact too high: commercial enquiries established that the market value was not more than £10,000 and Mr Lewis' solicitors were told that we were prepared to accept this amount plus VAT, ie. £11,000. On further representations from Mr Lewis, it was agreed that he should be allowed to pay this amount over 3 years. It was hoped that this concession would enable the sale to be completed by August 1973 but Mr Lewis next told us that his financial backers had withdrawn, and that he could complete only if the Government lent him the money. Needless to say, this was not on, and on 15 August 1973 the Treasury Solicitor served formal notice on Mr Lewis to complete within 28 days. Mr Lewis' failure to do so left the way clear for the Department to seek another purchaser (SMD 72/1/14/12).

One matter was not however resolved until July 1974. This was the question of the 10% deposit (£9,000) which Mr Lewis had paid when his tender was accepted in January 1973, and which the Home Office had held since then. Mr Lewis pressed for the return of the deposit, and his representations were supported by Mr Ron Lewis, the Member for Carlisle, on the ground that Mr Lewis had entered into the contract to purchase the brewery and paid the deposit on the understanding of a loan from the Merchant bankers, who later withdrew because of the "political implications". In fact, it was clear from correspondence previously sent on by Mr Lewis' solicitors that the Merchant Bankers in question had realised his limitations and no longer considered his project worth backing. Moreover, under the terms of the contract, not only was the deposit liable to be forfeited on Mr Lewis' failure to complete, but the Department was entitled, after crediting the deposit, to recover the amount of any loss occasioned by expenses of resale or incidental to it, or by diminution in the price, if the property was resold within twelve months. The losses attributable on this basis (agent's expenses for resale: cost of caretaker staff at the brewery; interest on balance due under the contract; and diminution in price, namely the value of items included in Holland and Threlfall's £90,000 offer but not in Mr Lewis' £90,000 tender) amounted to £14,877 so that, after crediting the deposit of £9,000, Mr Lewis was liable for £5,877. The Department considered however that there was not a very strong case for insisting on any of these terms except the agent's expenses (£1,278) and accordingly that Mr Lewis' deposit should be returned to him, less this amount; ie. that from the accounting point of view, an ex gratia payment should be made to him of £7722. The Chief Secretary, Treasury, agreed in the light of the following considerations (to which he said he attached more importance than to the "political atmosphere" surrounding the sale of the Scheme) -

- (i) Mr Lewis had acted in good faith and had adequate backing when he made his offer for the brewery and it was the change of mind of his financial backers which had prevented completing.

(ii) The Home Office had accepted his offer despite their doubts about Mr Lewis' ability to carry it through. Although this was a reasonable decision in the absence of any adequate alternative tender, it was questionable whether the Department should stand on its full legal rights.

(iii) It was uncertain whether the Department really had incurred any loss as a result of accepting Mr Lewis' tender. (SMD/73 1/9/28)

Note of Interview with Mr & Mrs IrvingPlough Inn, Wreay

Interview Mr & Mrs Irving with regard to putting the house under management. I told Mr Irving that I had gone into the figures of their trade and as one of the principal parts of their trade in Summer was the giving of teas and as the restriction on the output of Beer, would limit their supplies to one-third of their 1916 supplies, the most I could offer them would be 17/6 per week, together with a commission on the food and the minerals.

We would, however, consent to Mr Irving continuing to work at Gretna, or if he went to Bristol to keep Mrs Irving on in the house, provided the Police consented to her being the licensee.

Mr Irving was very indignant and said that he would not accept less than double that amount and would not allow the Control Board to take over his house until the expiration of his lease. I told him that this was a ridiculous attitude to take up as we could obtain control after the expiration of 10 days by serving a Statutory notice upon him.

With regard to the amount to be paid, I suggested that he should look in to his accounts and see whether, on the basis of the 1916 figures, he would be able to make anything like 17/6 per week, after taking credit for having the house rent free and coals and light provided for him.

Later on Mr and Mrs Irving saw me again and stated that they would stay on at a figure somewhere between 17/6 and double that amount. I told them I was not going to bargain with them, that 17/6 was the utmost we could offer and I suggested he should think about it and let me know. Mrs Irving said that she would be content to have 17/6 per week, provided we paid for a servant. I asked what they had done in the past and Mrs Irving admitted that they had had help on Saturdays and Sundays for the tea trade, but that otherwise she would be able to do all the necessary work.

I told her that if we provided the attendants for the tea trade, we should certainly expect to take the profits, but if she took the profits she would have to provide the extra assistance for the tea trade, and I could not therefore agree to providing any servant for the house.

Mrs Irving wanted to know whether we should provide all cleaning materials for the house, such as soap, cloths etc I told her that the only cloths we provided were for cleaning the trade utensils.

E. C. S.

Carlisle,

28th April, 1917

Plough Inn, WreayNote of Interview with Mr Irving

Mr Irving called with reference to my conversation with him and his wife last Saturday, and stated that while they regretted that I could not offer them 25/- per week, they would be prepared to accept my offer at 17/6 per week.

He stated that he was shortly leaving for Bristol, and that he hoped the same offer would hold good to his wife as if he was staying himself. I informed him that it would, provided that the Police consented to her becoming the licensee in place of himself.

I told him that we were on the point of concluding negotiations with the landlord for a lease and I told him that I had suggested to the landlord that he, Irving, should give up the tennancy as from the date when we took over the management of the premises, in order that we might become the tenants of the landlord of what he, Irving, held, until our lease commenced on the 2nd Feb.

He stated he quite agreed to this, and as he was seeing Mr Heskitt, the agent, about it to-day, he would mention it to him.

E. C. S.

Carlisle

5th May, 1917

WORKING PARTY ON STATE MANAGEMENTSecond ReportI - Introductory

1. We were appointed in the Autumn of 1960 with the following terms of reference -

"To consider and report on :-

- (1) the legislative and practical steps required to bring to an end the system of State Management in England and Wales and/or in Scotland, and
- (2) the possible means, and the probable effects, of withdrawing in whole, or in part, restrictions on the sale of liquor in State Management Districts by private persons who obtain licences or certificates from the licensing justices or the licensing court."

In view of the introduction of the Licensing Bill in November, 1960, we were asked to report first on the second part of our terms of reference. We did so on 15th November, 1960. During the passage of the Bill, Government amendments were made which have the effect that, in the Carlisle District, the Secretary of State's authority is not required for the sale of liquor in premises which obtain a restaurant or residential licence or for the supply of liquor in clubs which obtain a registration certificate from the magistrates' court. On Third Reading of the Bill in the Commons, the Government spokesman said that to have gone any further "would have involved fundamental alterations in the present conception of State Management, which would have taken us far beyond the scope and intention of the Bill".

2. It was therefore clear that the question of disposal of the State Management schemes, whether in Carlisle or Scotland, was not an issue for the Licensing Bill; and in reply to a Parliamentary Question on 3rd August, 1961, the Home Secretary stated that no legislation to sell the scheme was contemplated at present. In these circumstances, we felt justified in treating the first part of our terms of reference on which we now present this report as a matter of less urgency than the second part.

3. It is relevant to add that the Licensing (Scotland) Bill which is now before Parliament provides that in the Scottish State Management Districts the Secretary of State's authority will not be required for the sale of liquor in premises in respect of which one of the new types of restaurant and restricted hotel certificates (for which provision is made in the Bill) is held. This is in effect a parallel relaxation to that made by the Licensing Act, 1961, in respect of the Carlisle District.

4. We begin with a short description of the assets of the Schemes and an account of their finances since their inception.

(i) The Carlisle and District State Management Scheme

General

5. The district comprises the City of Carlisle, an area north of the city up to the border and an area west of the city extending to the coast at Maryport and Silloth. The total area of the district is about 320

square miles. The extension of the district, in 1916/17, to West Cumberland, was not an act of deliberate policy; it occurred because some of the breweries acquired in Carlisle owned public houses in West Cumberland, and it was more economic to acquire these houses than to pay compensation for "severance". But the State did not acquire public houses in West Cumberland owned by other breweries, with the result that, in that area, the Scheme is in competition with private enterprise, whereas in and around Carlisle it still has a virtual monopoly. As a result of the same "historical accident" the Scheme owns a few houses outside the statutory district: apart from two houses which are under management, these are run by tenants (as is one house within the district) and hold justices' licences.

Brewing and Bottling etc.

6. Brewing is carried on at the Old Brewery, Carlisle. (The other four breweries acquired at the inception of State Management were closed in the first years of the scheme.) The brewhouse was built in 1756, but the boilerhouse and bottling stores are of recent construction. Brewing is conducted on traditional lines and the brewing plant is typical of that to be found in most small and medium sized breweries in England, except that, under a programme now nearing completion, the old copper-lined fermenting vessels are being replaced by stainless steel vessels of modern design. Malt is made in the Scheme's own maltings and the former Carlisle New Brewery is used for this purpose. The Brewery has a capacity of about 65,000 barrels a year. The bottling stores are equipped with modern plant for conditioning, bottling and pasteurising beer. The Bonded Warehouse and the Wholesale Wine and Spirit Stores in Carlisle are not freehold properties of the Scheme, but are held on lease from British Railways. At Maryport, however, the Scheme owns a bonded warehouse, which is used for the storage of spirits in casks during maturation, and a wholesale depot. The Mineral Water Factory in the centre of Carlisle has a modern plant for the manufacture of aerated soft drinks and for bottling cider and fruit juices. In addition to these wholesale branches the Scheme has a head office in Carlisle accommodating a staff of about seventy, a maintenance workshop, garage and general stores.

Retail Branches

7. The retail branches consist of 159 public houses, 11 hotels and 6 off-sales shops. 55 of these premises are in Carlisle; 15 are in Maryport (26 miles from Carlisle); 6 in Wigton (10 miles); 6 in Silloth (23 miles); 4 in Longtown (8 miles); 4 in Aspatria (16 miles); and one in Workington (33 miles and outside the statutory district - see paragraph 5 above). The remainder are in rural areas. The public houses vary greatly in size and construction and in standard of accommodation provided. Those of recent construction are attractive and well provided while some of the older premises are of poor design and provision. An extensive programme of modernisation of the poorer premises is in hand. The Central Hotel and the Red Lion Hotel in Carlisle have 75 and 60 bedrooms respectively. The Crown Hotel at Wetheral, four miles from Carlisle, has 18 bedrooms. Two hotels at Silloth, a small seaside resort, each have 25 bedrooms and one has 29. The other hotels are in the small towns in the area and have an average of 10 bedrooms.

8. The Scheme also owns a number of shops, offices and houses acquired when the assets of the brewery companies were taken over. It has been the aim in recent years to dispose of this kind of property in so far as it is not required for State Management purposes (extension of State Management premises, or housing of staff). The shops etc. retained by the Scheme are let at commercial rentals.

(ii) The Scottish State Management Schemes

9. There are two widely separated Scottish districts - Gretna and Cromarty Firth. The Gretna district consists of the burgh of Annan together with a number of parishes in the south-east of Dumfriesshire; the Cromarty Firth district comprises the burghs of Cromarty, Dingwall and Invergordon, together with a number of parishes in the eastern part of Ross and Cromarty.

10. In the Gretna district there are 15 retail branches, comprising 7 public houses, 6 hotels, 1 licensed restaurant with public bar and 1 off-sales shop. Almost half of these (3 public houses, 2 hotels, the licensed restaurant and the off-sales shop) are in Annan, the main centre of population. The remainder are in rural areas. In recent years, the Queensberry Hotel, Annan, has been modernised and extended and it now has 24 bedrooms, a dining room capable of holding 60, and a public room for 70 people. The other five hotels in the district have an average of 10 bedrooms. In some of these, and in some of the other retail premises, modernisation and improvements on a small scale have been carried out within the last few years. One of the hotels (Kirtlebridge) will soon be demolished because of a road improvement scheme and is to be replaced by a public house in the nearby village of Eaglesfield which it serves. Tentative plans are being made for the provision of an additional public house in a new and expanding district of Annan.

11. In the Cromarty Firth district there are 18 retail branches, comprising 6 public houses, 9 hotels and 3 off-sales shops. Of these, 3 hotels, 1 public house and 1 off-sales shop are in Dingwall; 1 hotel, 2 public houses and 1 off-sales shop are in Invergordon; 1 hotel, 1 public house and 1 off-sales shop are in Cromarty; and the remainder are spaced out in the villages between these three burghs. As in the Gretna district, many of the premises have been modernised to some extent in recent years; and more extensive alterations and improvements are planned in the case of the National Hotel, Dingwall (at present 38 bedrooms). The other eight hotels in the district have an average of about 10 bedrooms.

12. No brewing is carried on in either of the Scottish districts, although bottling and whisky blending is undertaken and there are bottling stores in the Gretna district at Annan and in the Cromarty Firth district at Dingwall and Invergordon; equipment to wash bottles has recently been installed in the Annan and Invergordon Stores. There are small local offices in each district. The head office of the Scottish districts is in Glasgow and is leased by the Ministry of Works from a private owner; the question of disposal, therefore, would not arise.

13. There are also a few other properties in each district owned by State Management. As in the case of the Carlisle Scheme, however, it is the policy to dispose of these, as opportunity offers, in so far as they are not required for State Management purposes; and in the meantime they are let at commercial rentals.

(iii) Finances of the Schemes since their inception

14. The Schemes were begun by the Central Control Board (Liquor Traffic) set up under, and deriving its powers from, the Defence of the Realm (Liquor Control) Regulations, 1915. The Licensing Act of 1921 abolished the Central Control Board and transferred its liabilities and assets to the Secretaries of State. Under the original financial arrangements funds for the acquisition and development of the undertakings, and also for working expenses, were provided

by the Exchequer and the gross receipts were paid to the Exchequer in their entirety. By 1927/28 the total receipts since the commencement of the Schemes, including the trading profits, exceeded the amount of the Exchequer issues during the same period, including interest charged thereon at current rates. Figures of capital for the undertakings, roughly comparable to the subscribed capital of a company incorporated under the Companies Acts, were then assessed at £732,000 and allocated to the districts in the proportions: Carlisle £593,300, Gretna £49,200, Cromarty Firth £89,500. Thenceforward, payments to the Exchequer were limited to the net annual surplus of receipts over expenditure. There has always been a surplus. By 31st March, 1961, the total profits of the undertakings since 1928/29 as shown in the commercial accounts (i.e. before taxation) amounted to £4,749,426. The annual profits of the three Schemes in the last five years have been:-

<u>Year ended</u> <u>31st March</u>	<u>Carlisle</u>	<u>Gretna</u>	<u>Cromarty Firth</u>	<u>Total</u>
	£	£	£	£
1957	148,756	20,372	24,553	193,681
1958	143,023	25,760	23,974	192,757
1959	149,772	23,899	22,320	195,991
1960	158,315	18,170	20,324	196,809
1961	178,017	13,058	20,701	211,776

The book value of the fixed assets of the Carlisle Scheme, as shown in the accounts for the year ended 31st March, 1961, is £903,000, but as indicated in Part VI below a provisional assessment of the real value of the fixed assets (subject to the reservations there mentioned) is of the order of £2.5 m.

The book value of the fixed assets of the Scottish Schemes is £210,000 and a provisional assessment of their real value is of the order of £483,000.

II - Methods of Disposal

15. The following appear to us to be the possible methods of disposal of the assets of the Schemes. We think that the first five must be rejected for the reasons which we give below.

(i) Vesting the Schemes in a public board

16. Something of this kind was suggested by the Royal Commission on Licensing (England and Wales), 1929-31. It would in no way meet the views of the critics of the Schemes and appears to offer no clear advantage administratively or financially over the present arrangements; indeed, insofar as it would entail a Board with a salaried chairman and members, it would be more costly. Further, far from settling the state management question once for all, the setting up of a new organisation for these relatively small undertakings might give rise to apprehension that it was the first step towards a future extension of public ownership of the liquor trade or at least that it might facilitate such an extension by a future Government of a different complexion. Indeed, the Royal Commission's suggestions about a public corporation were part and parcel of their recommendation that "public ownership should be applied elsewhere in circumstances which will submit the system to a further test both in a social and a financial sense".

17. We see no advantage in vesting the Schemes in a public board, not as a final settlement of the state management question, but as a step towards a sale at a later date. This would, in our view, merely introduce unnecessary elaboration into the arrangements for the sale of the undertakings.

(ii) Sale to a non-profit making concern

18. This would have the advantage, in the eyes of those who believe in disinterested management of the liquor trade, that, although the Secretary of State's control would be abolished and new licences might therefore be granted to ordinary private enterprise, the existing State Management premises would be entrusted to another form of "disinterested management". But the available non-profit making concerns have expanded little in recent times and there is no reason to think that any of them would wish to acquire the Schemes or is in a position to pay a fair price for them.

(iii) Formation of a limited company to run the undertakings

19. Assuming that the object would be to transfer control of the undertakings from the Government to other hands, this would involve finding someone willing and able to float a company to acquire and run them. It is conceivable that such a person might come forward if the undertakings were put up for sale by public advertisement or auction (see below); but we see little scope for Government initiative towards securing this result.

(iv) Sale at valuation to a consortium of brewers

20. It is possible that the trade would be prepared to consider the idea of a brewers' consortium to acquire the Schemes at a fair price fixed by valuation and run the properties, perhaps under a special charter. In theory this method of disposal would have the advantage that confidential negotiations with the brewing trade could precede any final decision to dispose of the undertakings, so that if satisfactory terms could not be reached the Government could reconsider the position free of any public commitment. But it would be optimistic to expect that any such negotiations could be kept secret; and such a procedure would offer obvious scope for misrepresentation of the Government's motives; special consideration for the brewers might be alleged. The point would also be made that if the Government intended to dispose of the Schemes they should be prepared to invite and consider offers from any quarter.

(v) Sale by competitive tender from selected brewers

21. This would be open to the criticism that a better price might have been obtained had the sale been open to all comers.

(vi) Sale by auction

22. The Valuation Office, Inland Revenue, have advised us that, in England and Wales, at least as good a price is likely to be obtained by this method as by any other; it affords the best protection against criticism; and accordingly we recommend it as the best method of disposing of the Carlisle Scheme; the possibility of some sales by private treaty beforehand should not, however, be excluded.

(vii) Sale by public advertisement for offers

23. We are advised by the Chief Valuer, Inland Revenue, Scotland, that this is the normal method of sale of individual licensed premises in Scotland.

It would not be open to the criticism mentioned in paragraph 21; but as the offers would be confidential and the eventual sale would be by private treaty, an opportunity would be created for misrepresentation of the Government's motives unless the highest offer was accepted in each case. As to this see paragraph 33 below. On balance, however, we think, and we are so advised by the Chief Valuer, that, bearing in mind the nature of the premises in Scotland, there is no good reason why, in disposing of those premises, the ordinary trade practice should not be followed and we recommend it as the best method of disposing of the Scottish undertakings.

24. The Valuation Office, Inland Revenue, have advised us that this method might be considered as an alternative to the method recommended in paragraph 22 for the disposal of the assets of the Carlisle Scheme, having regard to the circumstances at the date of the contemplated sale. We think that this suggestion might be borne in mind.

25. We recommend, in effect, that in both England and Scotland the method of sale should be by inviting offers, in England at a public auction and in Scotland by public advertisement.

III - Arrangements for sale - Carlisle District

26. We are advised by the Valuation Office that if sale by auction was decided upon the first step should be to appoint an agent to handle the sale. This should be a London agent of high standing in the profession and experienced in the sale of licensed property. It would also be advisable to appoint an agent in the north to assist the London agent and supply local knowledge. The Valuation Office would be glad to advise on the choice of agents.

27. The provisional advice given to us by the Valuation Office is that the properties in the Carlisle district should be divided into four classes for purposes of sale:-

- (a) Unlicensed premises (shops, offices, houses etc.).
The best price for these could probably be obtained by selling them to existing tenants. If the latter were not willing to buy, the premises should be sold individually by auction.
- (b) Public houses which would have a higher value if sold for conversion to other uses. There are some four of these in the centre of Carlisle. They should be sold individually by auction.
- (c) A few rural public houses with small trade, which would not be attractive to a brewer and which if sold with other properties might have an adverse effect on the price obtained, but which if sold separately might be attractive to an individual with a little capital who wanted a home in which he could do a little trade. These too should be sold individually by auction.
- (d) The remainder. These should not be sold in one lot; quite apart from the consideration that this would have the effect of substituting one monopoly for another, they could probably be sold to better advantage if divided into several lots. Lots each of which included some public houses near the centre of Carlisle together with a group of outlying houses would be likely to prove attractive to brewers with interests in the neighbourhood. In general

the aim should be to make up lots containing some attractive and some less attractive properties. The brewery etc. should be included in a lot with some of the retail establishments. The lots would be made up in consultation between the Valuation Office and the agents.

28. Division into lots offers the best protection against purchase by a speculator for resale in parcels. All lots might, of course, be bought by one purchaser. Conditions might be attached with a view to preventing this, but these could not be fully effective. One buyer could not be prevented from reselling to another. Furthermore any such conditions might prove a handicap to the sale.

29. In advising that the brewery should be included in a lot with retail establishments, the Valuation Office have in mind that, as the present tendency is towards large-scale brewing, it is to be expected that a purchaser would close the brewery, either at once or after a short time.

Thus the brewery by itself would not be an attractive item. This is not, however, to say that the aggregate price to be expected for the assets of the Scheme as a whole would not represent fair recompense for the capital invested in it. On the contrary, the Valuation Office think it not unreasonable to expect a quite favourable market.

30. A reserve price should be fixed for each lot as a safeguard. Even if the reserve price was not reached at the auction for some lots, publicity would have been obtained and, we are advised by the Valuation Office, experience shows that a sale at a fair price would be likely to follow soon after.

IV - Arrangements for sale - Scottish Districts

31. The Chief Valuer, Scotland, has advised us that, having regard to the smaller number and the nature of the Scottish premises, it would be sufficient to publish advertisements listing the several premises for sale and inviting offers.

32. Some difficulty may be experienced in dealing with the offers so received. The temperance movement in Scotland attaches importance to the "principle" of Scottish licensing that the certificate-holder is an individual who is personally in charge of and responsible for the conduct of his premises. This "principle" has recently been undermined by the brewers who have been purchasing premises and having the certificate transferred to one of their officials or have been putting up the money to enable individuals closely tied to them by contract to purchase premises in their own name. This movement, which has brought much-needed capital into the licensed trade, has been the subject of some criticism by temperance interests and by the licensing courts.

33. It is likely that brewers will put in offers for the Scottish hotels and public houses. If these were the best offers, the Secretary of State would be in a dilemma, since to accept them might expose him to criticism as acting in contradiction to the spirit of Scottish licensing, while to refuse them and accept lower tenders might expose him to criticism on other grounds. It might be possible, in advertising for offers, to make it clear that offers would only be entertained from persons capable of holding certificates, ie, in terms of section 33 of the Licensing (Scotland) Act, 1959, from "individual persons not under twenty-one", but this would not prevent offers being made by brewers'

nominees. We can see no method of preventing this; we think however, that in order to preserve room for manoeuvre a condition of sale should be that the highest or any offer might not be accepted.

34. It is improbable that any offers would be made for the existing wholesale premises in Scotland which would reflect their profitability as going concerns. Any offer received is likely to be based on the value of the sites and buildings for other purposes and in some cases may not be very high. But this is not the result of the method of sale proposed; even were the premises in the two Scottish Districts to be sold as single lots, it is unlikely that any private concern would make use of the wholesale premises in the running of the business. The amount of the "loss", if any, involved in the sale of the wholesale premises would probably be small in comparison with the total value of the State Management premises.

V - Staff

35. If it were decided to bring the system of State Management to an end, it would be necessary to dispose of the staffs employed by the Schemes; and the cost of compensation to staff for whom other employment in the civil service could not be found would be the largest element to be set against the proceeds of sale.

36. The staffs employed by the Schemes may be divided broadly into two groups, (i) members of the General Service Classes, in which are included the two General Managers (Carlisle and Scottish Districts), other senior members of the supervisory staffs, and office staffs; and (ii) the specialised staffs of the Schemes, including brewery workers and hotel and public house staffs. We have assumed that members of the General Service Classes would be found employment elsewhere in the service and that no question of compensation would therefore arise in respect of them. The assumption may not, however, be justified in the case of the General Managers and possibly five other members of the higher staffs in the Scottish Districts who by reason of their rank or length of service in this specialised field might not be readily employable elsewhere in the civil service.

37. We have assumed that all staff outside the General Service Classes would not be found other employment in the service and would be compensated on the usual "abolition of office" terms under the Superannuation Acts. The Appendix to this report shows the number and classes of staff concerned, together with estimates of the annual pensions (and commuted value of pensions) and lump sum payments to which they would be entitled.

38. The figures given in the Appendix for the total cost of commuted pensions and lump sum payments - £281,000 for the Carlisle District and £69,196 for the Scottish Districts - do not include the cost of pensions and lump sum payments which would have to be paid to the General Managers and five other members of the staff of the Scottish Districts, if these were not found other employment. These payments would amount to £15,315 for the Carlisle District and £28,561 for the Scottish Districts.

39. It will be seen that, on the assumptions mentioned in paragraphs 36 and 37 above, disposal of the schemes would involve the discharge of about 620 staff. There might well be some complaint that these employees had been discharged with inadequate compensation for the loss of assured employment, even though it seems likely that some of them would continue in the employ of the successors to the State Management Schemes. On the other hand, there might equally be criticism on the ground that staff were being compensated at the tax payers' expense when they were continuing to be employed in much the

same capacity and possibly with more pay, by the successors to the Schemes.

VI - Financial Considerations

(i) Carlisle District

40. At the request of the Home Office, the Valuation Office, Inland Revenue, prepared, in September, 1960, a rough valuation of the fixed assets of the Carlisle and District State Management Scheme. This valuation was essentially a "paper exercise", based upon trade and other information supplied to the Valuation Office; in view of the need to keep the exercise confidential it was not possible for the valuers to inspect the majority of the properties. The Valuation Office's approximate estimate, made on the limited information available to them, of the value of the fixed assets of the Scheme, if sold in the open market free from any unusual conditions, is £2,500,000. The Valuation Office add that their estimate may be susceptible of material variation on production of further and better information. It is not to be regarded as valid for more than three months from the date of this report or if circumstances are altered. To this valuation of £2,500,000 for the fixed assets should be added the value of the loose plant, furnishings, utensils and vehicles and stocks and ready cash (less liabilities) which are shown in the latest available balance sheet as amounting to some £320,000.

41. The estimated agency charges for the conduct of a sale would be of the order of £80,000. As stated in paragraphs 35 - 39 above, it would also be necessary to compensate redundant staff by the payment of gratuities or lump sum allowances to unestablished staff and by the payment of pensions to established staff who could not be re-employed, and the total estimated cost of disposing of redundant staff in these ways (including a figure representing the commuted value of pensions payable) would be of the order of £281,000

On completion of the sale at the Inland Revenue valuation and after payment of costs and provision for all contingent liabilities, the Exchequer might therefore expect to be left with a net balance of the order of £2,459,000.

(ii) Scottish Districts

42. The Inland Revenue Department's estimate of the current open market value of the undertakings in Scotland, again made without inspection of the various properties concerned, is £483,000 (Gretna £243,000, Cromarty £240,000), to which should be added the value of vehicles and current assets (less liabilities) which are shown in the latest available balance sheet as amounting to some £37,000. On the basis of these valuations the gross amount to be expected from the sale would be of the order of £520,000. From this there would fall to be deducted the cost of the sales of the properties estimated at £15,000, and the disposal of redundant staff (including the commuted value of pensions payable) estimated at some £69,000. The net yield to the Exchequer might therefore be expected to be in the region of £436,000.

(iii) Financial Conclusion

43. On the basis of the Inland Revenue valuations of the fixed assets of the Schemes, the current trading profits (some part of which is of course derived from rents of properties ancillary to the trading apparatus of the business) are of the order of 6% of the assets employed after allowance has

been made for capital tied up as stock and (so far as is possible in the absence of a current valuation) as loose plant and chattels. If the Schemes were sold the Exchequer could put the net yield to other uses and in addition the purchaser(s) would pay income tax and profits tax. A sale might therefore yield some marginal financial advantage to the Exchequer in present circumstances and of course there would be a release to other work of Home Departments headquarters staff now concerned with the administration of the Schemes (though none of this staff is so employed whole time).

VII - Need for Legislation

44. Section 76 of the Licensing Act, 1953, and section 81 of the Licensing (Scotland) Act, 1959, are expressly stated to have effect for declaring the powers exercisable by the Secretaries of State for the purposes of state management of the liquor trade in the State Management Districts. It seems clear that a decision to dispose of the Schemes would require the approval of Parliament, to be sought by way of amending legislation to relieve the Secretaries of State of their state management functions. It is probable that rather more than simple repeals would be needed: for instance it would be necessary, if the best price was to be obtained for the Schemes' hotels and public houses, to provide that they should be treated for the purposes of the licensing law as if they were existing licensed premises (which at present they are not, since the Secretaries of State do not require licences).

VIII - Summary

45. Our conclusions may be summarised as follows -

- (a) We recommend as the best method of disposing of the main assets of the Carlisle undertaking, sale by public auction, and of the Scottish undertakings, sale by public advertisement for offers. (Paragraphs 22 - 25).
- (b) The sale of the Carlisle undertaking should be handled by agents. Unlicensed premises should be sold to existing tenants, or, if they were unwilling to buy, by auction. Some four public houses in Carlisle, having a higher value if sold for conversion, should be sold individually by auction. A few rural public houses with small trade should also be sold individually by auction. The remainder of the premises should be sold by lots at auction. A quite favourable market could be expected. (Paragraphs 26 - 30).
- (c) The Scottish premises should be advertised for sale and offers invited. Offers for wholesale premises in the Scottish Districts would be likely to be based on site and building value only, but the amount of "loss", if any, involved in the sale of the wholesale premises would probably be small in comparison with the total value of the State Management premises. (Paragraphs 31 - 34).
- (d) Against the expected proceeds of sale of the assets of the Carlisle Scheme (provisionally estimated to be of the order of £2,820,000) must be set the agency charges (£80,000) and the cost of lump sum payments and pensions to redundant staff (£281,000), leaving a balance of some £2,459,000. In Scotland against the expected proceeds of sale (provisionally estimated at about £520,000) must be set the cost of sale (£15,000) and the cost of lump sum payments and pensions

Staff - Number and Classes, and Payments to which entitled(a) Carlisle District

Class	Number	Pensions		Lump Sum Payments (Additional allowances, short service gratuities and temporary staff gratuities)	Total including commuted value of pensions
		Annual Payments	Commuted Value		
	⌘	£	£	£	£
Established Non-Industrial staff at Head Office	5(3)	644	7,403	3,454	10,857
Established Non-Industrial Hotel and Public House Managers	22(14)	1,941	22,321	10,919	33,240
Established Industrial Public House Managers	54(45)	5,024	57,076	19,578	76,654
Established Industrial Hotel, Public House, Works Dept., Brewery etc. workers	123(104)	9,861	113,200	37,747	150,947
Temporary Non-Industrial Hotel and Public House Managers	5	-	-	455	455
Temporary Industrial Public House Managers	21	-	-	2,979	2,979
Temporary Industrial Hotel etc. workers	38	-	-	2,868	2,868
Temporary Part-time Industrial workers	100 /	-	-	3,000	3,000
Totals	368	17,470	200,000	81,000	281,000

⌘ Numbers eligible for pension are shown in brackets

/ Estimated number

(b) Scottish Districts

Class	Number	Pensions		Lump Sum Payments (Additional allowances, short service gratuities, and temporary staff gratuities)	Total including commuted value of pensions
		Annual Payments	Commuted Value		
Established Non-Industrial Staff at Head Office	1	-	-	257	257
Established Non-Industrial Hotel Managers	✕ 8(5)	717	7,570	3,505	11,075
Established Industrial Public House Managers	15(12)	1,529	17,813	6,165	23,978
Established Industrial Hotel, Store etc. workers	21(17)	1,160	14,594	4,458	19,052
Temporary Non-Industrial Hotel Managers etc.	9	-	-	246	246
Temporary Industrial workers	127	-	-	12,833	12,833
Temporary Part-time Industrial workers	74	-	-	1,755	1,755
Totals	255	3,406	39,977	29,219	69,196

✕ Numbers eligible for pension are shown in brackets.

Mr PittamANNEX E

HISTORY OF THE CARLISLE AND DISTRICT STATE MANAGEMENT SCHEME

I have not had an opportunity, since my return from leave, to do more than skim through the copy of Mr H B Wilson's history which you sent me with your minute of 13 August. I am retaining the copy in order to read it more thoroughly; but in the meanwhile you have asked for early comments on the question of distribution.

In general, it seems to me that the proposed distribution lists appended to your minute are right; and I agree that it would be as well, if possible, to avoid sending a copy of the main report to the House of Commons Library. I am not altogether clear, however, whether you are suggesting that copies should be sent to the three MPs chiefly concerned as an alternative. With individual copies of the main report (only) distributed to members of the Local Advisory Committee, I should expect knowledge of it fairly soon to reach Mr Lewis in particular, and I do not see how, in those circumstances, we could easily withhold copies from him and from Mr Peart and Mr Whitelaw. It would be best, I think, to volunteer them from the beginning. But once Mr Lewis has a copy we may very well face a demand from him that one should be placed in the House of Commons Library, and if it were made I expect that we should have to accede to it. However, there is no reason why we should go out of our way to anticipate this; we shall just have to wait and see how things work out.

K.P.W.

K P WITNEY

General Department

8 September 1975