THE COMMITTEE ON ESTIMATES AND THE STATE MANAGEMENT DISTRICTS

The Select Committee on Estimates have included in their exminations this year the Estimate of the State Management Districts. This is the first occasion on which they have done so; a fact which has given additional interest and publicity to the resulting Report.

The section which deals with the State Management Districts is a comparatively brief one, but the main points dealt with are so important that we propose to examine them at some legth; for the very brevity of the official comments may tend to give the man in the street a rather one-sided impression of the State Management Schemes in their financial aspect - this being, of course, the only aspect which the Committee was called upon to consider.

The Report begins with a short paragraph headed "History of the Scheme", and here we come to the first statement that is likely to mislead anyone whose only knowledge of the "History of the Scheme" is derived from the brief paragraph in the Report itself.

"Of the four original districts", the Report states, "the Enfield Lock District was disposed of in 1922 at a loss of £29,000, including a trading loss of £7,000." Nothing more is said on this point, and obviously the impression to be gathered is that State Management in this case meant unbusiness-like methods and squandering of the tax-payers' money. But what are the real facts of the case? The Home Office Report for 1921-22, when the Enfield Scheme was disposed of, contained the following explanation:

> "The operations carried on by the Central Control Board in the Enfield Lock State Management District differed somewhat in character from those in other districts. The public houses acquired by the Board at Enfield Lock were not situated in a residential area, and they served, almost exclusively, the workers on the Royal Small Arms Factory. With the enormous increase in 1915 in the numbers employed at the Factory it had become urgently necessary to assume control of the supply of drinks at these houses, and to transform and enlarge the accommodation provided in them so as to secure reasonable amenities for the factory workers, by whom they were overcrowded, during mealtimes and recreation intervals. The numbers employed at the Factory have been progressively reduced during the last few years to a figure below pre-war strength and the undertaking can no longer afford a remunerative return upon the war-time capital expenditure with which it is weighted. Steps have, therefore, been taken to dispose of the properties in this district"

(Italics are ours).

In fact, the State took control at Enfield in 1916 at the request of the workers themselves, and to meet a situation which could not have been met in any other way. "It was beyond dispute that more canteen provision must be made, and by the State; for the inrush of Labour had broken down a victualling system based on private ownership and devised for normal times". (Rev. Henry Carter, The Control of the Drink Trade).

In short, Enfield was part of a necessary war-time service, and considered in this light, one has a very different impression of the "loss of £29,000." This could surely be borne by a country which at one time was spending from five to seven millions a day for the carrying on of the war. Even so, the figure of £29,000 does not present the real facts of the case, for among the properties taken over by the Control Board were premises belonging to the War Office, which were enlarged and improved at a cost of £10,000, and afterwards returned to the War Office; in other words, transferred from one government department to another. All this must be borne in mind before we take the comments of the Committee on Estimates at their face value.

Returning to the present situation, the Committee's Report next deals with "General Organisation". The main comments made here may be cummarised as follows:

The organisation, consisting of the Central Council, with offices in London, the General Manager's Office in Carlisle, and the Scottish General Manager's Office in Glasgow, is intricate and "unnecessarily expensive". It is pointed out that, apart from the £1,089 salary of the Secretary to the Central Council in London, which is borne on the Home Office Vote, "the expenditure on salaries" alone in the London office is close on £5,000 a year." Again "one "manager is in control of the Carlisle District, and the Manager for" "Scotland is in charge of Gretna, only a few miles away over the " "border." The reason for this is stated to be that the two Districts' "are separated by the border, the Home Secretary being responsible " "for Carlisle and the Scottish Secretary for Gretna, and that there " "are different licensing laws in England and Scotland". Whatever "force there may be in this contention, it appears to be a most "unbusiness-like arrangement that the two districts, separated by "a few miles, should be managed by two different individuals, one of "whom is responsible for another district between two hundred and "fifty and three hundred miles away. The cost, moreover, of the "London Office appears excessive."

"Your Committee think that the time has come when the whole "organisation of the scheme should be reconsidered. The natural "arrangement is that one General Manager should control both the "English and Scottish Districts. If he were stationed at Carlisle "the Carlisle, Gretna and Cromarty Firth Districts could all be under "his supervision, while local superintendents, subordinate and re-"sponsible to the General Manager, could be left in charge of Gretna and Cromarty First respectively, and the existing office at Glasgow could be closed with a considerable saving in overhead charges."

The criticism, it will be seen, is not of the way in which the individual districts are run, but of office and overhead expenses in two places - London and Glasgow - which are far away from the districts where State Ownership and Management actually exists. One may be inclined to agree that the expenses of the London and Glasgow offices are unnecessarily high; but this does not and is not meant to imply the State Management Districts themselves are run uneconomically. It is not a question of principles, but of methods, and certainly the cutting out of administrative unnecessary expenses would be welcomed at least as readily by supporters of the principle of Public Ownership as by others. It is also true that it seems difficult, from a purely business point of view, to defend the existence of separate organisations for Carlisle and Gretna, and if political considerations - the existence of the border and the different licensing laws - can be overcome, as the Committee imply that they can, there would be the possibility of rationalisation in this respect. At the same time it seems doubtful if the post of Scottish General Manager could be entirely done away with, even from a purely business point of view, for the English General Manager, with an area of 320 square miles, containing nearly 180 public houses and 10 hotels, under his control, is not likely to be able to give the same detailed attention to the Scottish area. In short, the proposals of the Committee boil down to economies to be effected in London and Glasgow, and if these could be carried out, it would be all the better.

We now come to the section dealing with the financial resuls of the Districts themselves. This section also calls for careful examination and some comment; it is indeed the most important item of all. Here again the Report, taken by itself, does not give the real financial situation of the Districts, or rather, it is presented in such a way that the "man in the street" will get an unfavourable impression which is not justified, particularly if he compares the results with those of private ownership.

The section in question deals with the profits of the schemes, and expresses these as percentages of their net assets - that is to say, total assets less sundry creditors and accrued charges. On this basis, the Committee find that the average percentages of net profits over the seven years 1928-34 were:

Carlisle	6
Gretna	4.6
Cromarty	3.7

and over the whole group, the percentage was 5.6.

Now these figures, particularly the ones for Gretna and Cromarty will appear low if superficially compared with dividends paid by leading brewers - and this is the comparison that will naturally spring to the mind of most people reading the Report. But a moment's reflection will show that this comparison is an unreal one. If we are to compare the financial results of State Management with those of private ownership then it must be a comparison on the same basis. In other words, we must treat the accounts of the brewers in the same way as the State Management accounts have been treated: we must express their net profits also as a percentage of their net assets (calculated in the same manner). Moreover, the Committee have taken the average profits over the years 1928-34, which includes the years of depression. If, on the other hand, we take the latest available figures, we find that the result for Carlisle is as follows (calculating on the basis used by the Committee)

Net Assets	Net Profit	Per cent
£891,767	56,287	6.7

Let us now compare this with the net profits of some brewery companies. To make the comparison over as wide a field as possible, we have taken twelve breweries: six of the largest and best known firms, and six whose net assets approximate to those of Carlisle. The figures are in every case the latest ones obtainable, and are taken from the "Manual of British and Foreign Brewery Companies", 1935-36 Edition.

(The latest dividends paid are also included)

	Net Assets £.	Net Profit £.	Per cent Profit	Div. %
Bass, Ratcliff & Gretton	10,413,227	905,422	8.6	18% and 2% bonus
Charrington & Co.	12,313,095	427,208	3.4	12
Guinness	14,095,713	1,880,933	13.3	24 and 5% bonus
Mitchells & Butlers	8,246,510	873,123	10.5	15 (tax free)
Watney, Combe & Reid	18,521,579	1,038,548	5.6	14 and 2% bonus
Whitbread & Co.	5,330,376	411,199	7.7	14 and 4% bonus

The percentage profit for the whole group is not quite 8.15 per cent. In other words, these leading breweries, with assets from ten to fifteen times as much as Carlisle, and with their advertising campaigns, show on the average a net profit only 1.45 per cent higher, and two of the largest have net profits considerably lower. This, we repeat, is the fair comparison, rather than a comparison with the high dividends, which are paid only on the Ordinary shares.

We will now take the second series of brewery companies, consisting of those with net assets nearer to the same amount as Carlisle's.

	Net Assets £	Net Profit £	Per cent Profit	Div. %
Allsopp Brewery Investments	1,265,359	77,643	6.1	22
Bell & Co.	794,060	32,936	4.1	6½
Bristol United Breweries	1,238,831	82,762	6.6	15
Cobbold & Co.	899,716	35,504	3.9	20
Hall's Oxford Brewery	839,022	75,943	8.9	22½ (tax free)
Hardy's Crown Brewery	889,103	27,975	3.14	6

The average profit for the whole group is 5.46 per cent which is not only well below the percentage for Carlisle, but even under the average for the whole State Management group for the last 7 years. Moreover, three of the individual percentages are below the figures given for Gretna by the Committee as the average profit for the last seven years ((including the years of depression) namely 4.6 per cent., and one of the percentages is even below the corresponding figure of Cromarty - an isolated rural district - namely 3.7 per cent.

In short, the State Management Schemes have nothing to fear from a fair comparison with the financial results of brewing firms, whether these have assets of several millions, or whether they are on a similar scale to that of the Carlisle undertaking.

Finally, it must be remembered that the whole cost of acquiring the State properties has been repaid, with interest, to the Treasury some eight years ago, that the number of premises for the sale of intoxicants has been drastically reduced, without a penny of the compensation which private trade receives in such cases, that State Management has not contented itself with building a few show houses in prosperous districts, but that the standard is equally high in a working class quarter, or a small village, as in a residential area, that there is no advertising or pushing of the sale of drinks; in short, that public needs and constructive reform have from first to last been put before profit-making, and in spite of all this the results are as good as under private trade; in many cases better.

The only attacks which can be made on the Scheme are one-sided. When the full facts are considered, and fairly estimated, State Management emerges from the test with flying colours.