

**RETURN to an Order of the Honourable the
House of Commons dated 1 December, 1977 for**

**Statement
by Her Majesty's Government on
the Report of the Fay Committee
of Inquiry on the Crown Agents
(House of Commons Return Number 48)**

Ordered by The House of Commons to be printed

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NOTE

Annex V is being published separately as House of Commons Return No. 50.

Statement by Her Majesty's Government on the Report of the Fay Committee of Inquiry on the Crown Agents.

Introduction

1. The Report of the Committee of Inquiry on the Crown Agents is being published today as House of Commons Return Number 48. It is published in full. The Government and the Crown Agents accept the Report as a fair and searching investigation into the facts; and accept the Report's conclusion that there were serious shortcomings on the part of the Crown Agents and that Departments and other outside agencies contributed to the failure to prevent losses. The Minister for Overseas Development, to whom the Report is addressed, has conveyed her thanks to Judge E S Fay QC, Sir Edmund Compton GCB KBE and Mr P Godfrey FCA for their thorough and exhaustive work on a most difficult and complex subject.

2. The terms of reference of the Committee of Inquiry, which was appointed on 23 April 1975, were:—

To inquire into the circumstances which led to the Crown Agents requesting financial assistance from the Government.

It will be recalled that in December 1974 the Crown Agents received from the Government a recoverable grant of £85 million. However, the Committee was not specifically asked to consider those aspects which bear directly upon the responsibility of Ministers to Parliament for public expenditure and for the exercise of proper control over public bodies, although its Report touches upon some of these.

3. The Government therefore wishes to provide certain additional information, and believes it will be of assistance to Parliament to set out the Parliamentary consideration of these matters. This is done in Annex I which contains all the major Ministerial statements about the Crown Agents since November 1971. The Government also wishes to state its policy in relation to the Crown Agents, and to reaffirm its confidence in, and support for, the present Board of the Crown Agents and for their work.

4. In view of the relevance of the report of the earlier Stevenson Committee to the history of subsequent events, the Government has decided that it also should now be published. It is printed in a separate volume (House of Commons Return Number 50) as Annex V.

The Past

5. It is manifest from the inquiries of the Committee that during the period from 1967 to 1974 the conduct of the affairs of the Crown Agents, and, in particular, the actions of certain of their staff, lacked competence and good judgement. As the Committee explain in paragraph 3 of the Introduction, they have made a separate report on matters relating to the late Mr Bernard Wheatley, the Crown Agents' former sterling money market manager, and Mr Sidney Finley. That Supplementary Report is not being published, because these matters are *sub judice*, but has been referred by the Minister of Overseas Development to the Director of Public Prosecutions. With the possible exception of

matters covered in that Report, the Committee found no evidence of corruption among the Crown Agents' staff. As regards exchange control, investigations by the proper authorities are proceeding. The Committee's report on the Crown Agents' acquisition of shares in the First National Finance Corporation Limited in 1969 to 1970 (paragraph 73) was referred to the Director of Public Prosecutions, who found no grounds for proceedings against the individuals in question. However, it is clear that the own-account activities of the Crown Agents did not accord with the proper standards of behaviour of public bodies. It is to be noted that other activities were properly conducted.

6. It is evident that, during this period, there was a lack of clarity concerning the constitutional relationship between Ministers and the Crown Agents, and that the information made available to Ministers was incomplete. It is recognised by all concerned that for much of the period between 1967 and 1974 the growth of the Crown Agents' own-account business, and the pattern of its investments, as outlined in the Report, was inadequately monitored and scrutinised. The Government accepts that this represented a failure to apply the normal principles of public accountability.

7. The Government believes that its efforts to explore the causes of this failure; its decision to lay all the facts before Parliament; and its efforts and success in re-establishing the Crown Agents on a sound footing, will be regarded as firm evidence of its determination that the conduct of public affairs shall be honourable, and shall be seen to be so.

The Future of the Crown Agents

8. The Fay Report explores and elucidates a phase in the conduct of the Crown Agents' affairs which ended, and ended decisively, three years ago. It is, in effect, an essential account of conduct and events which are now a question of historical concern rather than present anxieties, although their financial consequences are still with us.

9. At the same time, it is important to emphasise that the traditional activities of the Crown Agents in providing services to their overseas Principals have continued, and are continuing successfully. As the Fay Committee has pointed out, what went wrong was a part only of the Crown Agents' financial activities, and those activities themselves formed only a part of the Crown Agents' total business. Judging by the continued success of their traditional role, the Crown Agents orthodox activities have not suffered from the publicity accorded to their own-account business, and in 1975 and 1976 the traditional agency services produced gross income of £11 million and £17 million respectively. These services had for nearly 150 years past been the reason for the Crown Agents' existence; they will now be the basis for a continuing future.

10. The Crown Agents are now performing their invaluable services on behalf of their Principals, who include 67 Commonwealth Governments, Associated States and Dependencies; 152 Commonwealth public bodies; and 57 non-Commonwealth Governments and agencies, in the secure confidence that the Government supports them during a period which will inevitably last for some time, of gradual disengagement from the ill-advised and disastrous speculative involvements of 1967 to 1974. Since December 1974, the Crown Agents have

been undertaking an orderly and phased withdrawal from property and secondary banking. The Government's assurance means that the position of all depositors is fully safeguarded.

11. The Government wishes to make clear beyond doubt its unequivocal and firm support for the Crown Agents. They have created a service to developing countries which at the same time provides a channel for traditional and new supplies of goods and services to the wide and expanding market of the third world. The Crown Agents' origins lay at the heart of nineteenth century colonialism, when their role (from 1833 onwards) was to procure goods from Britain for the colonies. In the last 20 years, they have built upon their past and created a confident and greatly appreciated relationship with the countries and public agencies of developing countries all over the world. The Crown Agents serve them, and in doing so are a crucial element in Britain's relationship with countries overseas. Their functions are now, and will be, the traditional services of procurement, recruitment, technical advice and management. The pattern of their future development cannot, of course, be precisely predicted, for it will be determined by the degree of expansion of the Crown Agents' own relationship with their overseas Principals, and by their response to new needs for goods and services as they emerge and are identified. The Government believes that all concerned can be confident that the Crown Agents have ahead of them a future of promise and achievement.

12. The Government is reinforced in this belief by its awareness of the capabilities of the present Chairman and his Board. The seriousness of the situation which we and they faced in the Autumn of 1974 was not one which they could have expected, in the absence of up-to-date financial information. That so much that was wrong has been and is being put right, and that activity on behalf of overseas Principals has increased in the last three years is a tribute to them, and particularly to the Chairman, Mr John Cuckney.

The Constitutional Position

13. The Fay Committee of Inquiry outlines the progress of efforts to establish the constitutional relationship between the Crown Agents and Governments from February 1970 onwards. This was not an easy matter. The Crown Agents, from 1833 onwards, were an agency under the direct control of the Secretary of State for the Colonies. Their roles was not questioned or examined until a Select Committee of the House of Commons investigated and reported in 1909, following which it continued as before, under the firm control of the Secretary of State for the Colonies.

14. The constitutional relationship was well understood and worked satisfactorily until the process of decolonisation occurred. The Crown Agents then began to undertake procurement of goods and services for independent governments and their parastatal agencies. Their formal responsibility continued to be to the Secretary of State for the Colonies until 1961 when it passed to the Secretary for Technical Co-operation, and from him to the Minister of Overseas Development in 1964. It will be of interest to Parliament to note that during the 64 years from 1909 to 1973, only 18 Parliamentary Questions touching upon aspects of the Crown Agents' work were tabled and answered.

15. The enquiries into the constitutional relationships which were initiated in 1970 were necessary. The exercise of effective control, and public accountability, cannot be divorced from a clear definition of Ministerial responsibilities and powers. It is an important element in the history of the relationship that no such clear definition existed between about 1960 and 1974.

16. The Government's White Paper (Cmnd 6445) on "The Future of the Crown Agents", promised in October 1975 and published in April 1976, outlined proposals for legislation to give the Crown Agents a corporate legal status, to define their functions, and to define the powers of the Minister. The Government believes it to be essential that the constitutional relationship shall be clarified, defined, and given legal status. Legislation will ensure a continuing basis for the traditional role of the Crown Agents in providing procurement, recruitment, technical, advisory and financial management services to their overseas Principals.

17. The Government will introduce as soon as possible a Bill to incorporate the Crown Agents: a commitment made to Parliament in October 1975. This will not affect the Crown Agents' relationship with their overseas Principals. But it will clearly define the relationship between the Crown Agents and Ministers which was obscure after the rapid move to independence of the Colonial territories in the early 1960s; and will provide for the proper exercise of public accountability. Meanwhile the Government has taken the administrative action detailed below, designed to secure these objectives pending legislation.

The Present Financial Position

18. All new own-account investment of the kind described in the Committee's Report has ceased. Since December 1974 the Crown Agents have undertaken an orderly and phased withdrawal from property and secondary banking. In February 1975, the Minister of Overseas Development (Mrs Hart), after consultation with the Board of the Crown Agents, set out in a directive the main principles which were to govern that withdrawal and the Crown Agents' future investment and lending policy. This directive is reproduced in Annex II. Special accounting arrangements have been agreed to ensure that the Crown Agents account separately for those investments from which they are disengaging, and proper accounting provisions have been made against bad and doubtful investments on past own-account activities.

19. Since October 1974 the Crown Agents have had a proper Board structure including independent part-time members appointed by the Minister and directly responsible to her. A complete internal reporting system has been established, with clearly defined levels of authorisation and control. In this connection, the Crown Agents' management accounting and financial information system has been completely reorganised and professionally qualified people have been appointed from outside the organisation to bring in the necessary expertise. The accounts are now published in accordance with Ministerial direction, agreed with the Treasury, governing their timing and their form so as to give the fullest measure of disclosure. New legal advisers and independent valuers have been engaged. In particular, the Crown Agents have sought independent professional advice on the management of their disinvestment

programme. A special London Advisory Committee has been set up to advise the Board on the Crown Agents' Australian interests, and includes two property consultants and a representative of Morgan Grenfell and Co Limited.

20. Close working relations have now been established between the Crown Agents and the Ministry of Overseas Development. The Ministry and the Treasury have been kept fully in touch with the Crown Agents' position and policies relating to financial matters, and progress in realising their own account investments. The Bank of England has been consulted in appropriate cases. Arrangements have been agreed under which the Chairman makes regular reports to the Minister on matters of special interest, and the Ministry and Treasury receive comprehensive management accounts every quarter. These arrangements are recorded in a set of guidelines issued in July 1977, which are reproduced at Annex III.

21. The withdrawal from property and secondary banking activities must necessarily take time. Much progress has been made, as is shown in the account given of individual investments in Annex IV. But some of the concerns in which the Crown Agents have invested money have gone into liquidation, and the Crown Agents have had to await settlement of their claims along with those of other creditors. In other cases, the problem has been to strike the right balance between disengaging quickly on the one hand, and recovering as much as possible of their investment, thus minimising the final loss to the taxpayer, on the other. This has been particularly important in regard to the Crown Agents' Australian investments. A broad strategy for the management of the Australian operations has been agreed with the Minister. She is also consulted about other major decisions on disengagement.

22. The traditional relationship between the Crown Agents and their overseas Principals is in no way brought into question by the own-account operations of the past. It is essential that the customary standards of confidentiality should continue to be strictly observed in respect of transactions undertaken as agents on behalf of overseas Principals.

23. The Crown Agents now have complete control over their property investments in Australia, from which a lengthy period of disengagement appears to offer the best prospect of reducing any demand on public funds. They are no longer involved with their former partners in the English and Continental Group. They are in the process of disengaging from their merchant banking investments in the Caribbean. Following the bankruptcy of the Stern Group, they are participating in a Scheme of Arrangement approved by the Court with an independent Administrator, as the most effective way of recovering as much as possible of their investment. Civil proceedings have been instituted to recover some of the moneys lost and the possibility of further such action is being considered.

24. The Crown Agents' Accounts for 1976 show that as at 31 December 1976, the deficit on the own-account investments in property and secondary banking (the Realisation Account) was in total some £212 million. The ultimate loss will not be known with certainty until the complete disengagement of the Crown Agents from the property and secondary banking activities of the past have been completed; this process may take some years. But it is already clear that the final

deficit may well be in excess of £200 million. Should the need arise, the Government's undertaking that it stands behind the Crown Agents will be fulfilled by putting proposals to Parliament for further financial assistance. Given the experience of the recent past the Government believes it wise to reassert its commitment to the Crown Agents, to give its present quantitative assessment of that commitment, and to undertake to inform Parliament if the degree of that commitment requires revision.

Conclusions

25. There has been a most severe failure of public accountability. The causes of this are made clear by the Report of the Committee of Inquiry, and are supplemented by the additional information presented here.

26. The Crown Agents are now on a different and better footing. Their constitutional position and their relationship with Ministers have already been clarified and will be established by legislation. Accountability is now established, and the disasters of their own-account activities of the past are being gradually remedied, at the cost of Government financial support. The Crown Agents' senior staff most criticised by the Report are no longer with the organisation.

27. The Government places firmly on record its confidence in the Board of the Crown Agents and in their traditional activities now and in the future on behalf of their overseas Principals. It stands behind the Crown Agents.

ANNEX I

On 8 November 1971 the Minister for Overseas Development (Mr Richard Wood), in reply to a question from Mrs Judith Hart, announced the appointment of a Committee under Sir Matthew Stevenson to consider the need for any changes in the status, functions and financial operations of the Crown Agents. The full text is given below.

CROWN AGENTS

The following Question stood upon the Order Paper:

56. **Mrs Hart:** To ask the Secretary of State for Foreign and Commonwealth Affairs whether he has considered the position of the Crown Agents and their relationship with Her Majesty's Government; and if he will make a statement about personal dealings in shares by Crown Agents.

The Minister for Overseas Development (Mr Richard Wood): With permission, Mr Speaker, I should now like to answer Question No. 56, and I apologise for the length of the answer.

The right hon Lady the Member for Lanark (Mrs Hart), when Minister of Overseas Development, asked for a departmental paper on the position of the Crown Agents. When I received it, I decided, with the agreement of my right hon Friend the Foreign and Commonwealth Secretary, to appoint a Committee to consider the need for any changes in the status, functions and financial operations of the Crown Agents. The Committee began work in the late summer. Its Chairman is Sir Matthew Stevenson. With permission, I will publish in the OFFICIAL REPORT the names of its members and its terms of reference. It would not be appropriate to publish a report, since most of the work of the Crown Agents is now for independent Governments; but I will make a further statement to the House after I have considered the Committee's advice.

I have also examined carefully questions which have been raised about the personal dealings in shares by the two Crown Agents, with the fullest co-operation of them both. Mr Hayes was a director in his official capacity of a merchant bank, the directors and managers of which were asked to purchase a small number of shares of a new issue sponsored by the bank. He did so after discussion with the then Permanent Secretary of the Ministry of Overseas Development, while giving instructions that the disposal of the shares should be at no gain or loss to himself. I am satisfied that this purchase was not inconsistent with his office.

Mr Morris is a director in his official capacity of Sterling Industrial Securities, in which the Crown Agents have a financial stake. In the summer of 1970 he told his chairman, Mr Hayes, of his wish to purchase some shares in this company with the gratuity he would receive on retirement in September, 1970. Meanwhile my Department, who had no knowledge of the proposed share transaction, agreed to the chairman's request that Mr Morris should remain in temporary employment as a Crown Agent for a period after his retirement from pensionable service. Mr Morris acquired shares in the company in October, 1970.

Last February Mr Morris became chairman of, and also purchased shares in, a private company which includes Sterling Industrial Securities among its bankers.

Looking back on this whole sequence of events, and taking account in particular of Mr Morris's retention as a Crown Agent for longer than was originally contemplated, I consider that the Crown Agents should have recognised that these arrangements might not be wholly compatible with Mr Morris's continuing employment as a Crown Agent. I have discussed this with Mr Morris, who is coming to the end of a long and devoted career in public service, and, in recognition of this difficult situation, he has undertaken to dispose of the shares without profit to himself.

Mrs Hart: I thank the Minister for that statement and recognise that it needed to be as long as it has been.

May I, first, say that we shall want to study this very carefully, in particular some of the implications of what he has said? Second, may I say that we are glad that the question of Mr Morris's shareholding has now been cleared up, but that this clearly indicates how important it is to get the constitutional relationship between Government and the Crown Agents right?

Why is he so determined not to publish the report of the inquiry when it is complete? I must tell the right hon Gentleman that we shall press him on this. I should find it quite wrong if a report on such an important constitutional matter were not to be made available to Parliament. Second, why has it taken so long to make this statement? As the right hon Gentleman said, I asked for the official departmental look at this in the spring of 1970, yet it is only now—in the summer—that he has set up the Committee.

Lastly, will the Committee, whose names he is about to publish, include representatives of Commonwealth Governments or of the Commonwealth Secretariat, recognising the key rôle that the Crown Agents play in the economic relationship between trade in Britain and Commonwealth countries?

Mr Wood: On the first of the right hon Lady's points, on publication, I have taken the view that the relationship between the principals, most or many of whom are independent Governments, and the Crown Agents themselves on the other side, is of immense importance, and that it would therefore be unwise and wrong to publish a report which could possibly badly affect that relationship. That is why I announced the decision that I have.

As for delay, I suppose that perhaps we have all been rather slow in getting round to this. The Crown Agents have now existed since 1833—therefore, for about 140 years. The Labour Party, the Conservative Party and the Liberal Party perhaps could have acted a little earlier in considering what should be the proper relationship between the Crown Agents, in new circumstances, and the Government. But in comparison with those 140 years, the period between the right hon Lady's initiation of this examination and the report of the Stevenson Committee will probably be a little less than two years, and therefore rather insignificant beside the length of life of the Crown Agents over the centuries.

As for the members, I will publish their names, as I have said, in the OFFICIAL REPORT. This is a small committee, which does not contain the membership

which the right hon Lady suggested, but it will, I hope, satisfy the House of Commons that these matters will be very carefully looked into.

Mr Dalyell: For what reason did the Department not have knowledge of the share transactions?

Mr Wood: Because they were not reported to them.

Mr Arthur Lewis: Could the Minister tell us whether this arose as a result of the scandal which was revealed by the *Sunday Times* and *Private Eye*? If so, will the right hon Gentleman pay a tribute to the *Sunday Times* and *Private Eye* for starting this scandal? After all, *Private Eye* is very rarely praised in this House, and it might make a change to do so.

Mr Wood: If the hon Gentleman will show me the reports which appeared in the *Sunday Times* and *Private Eye*, I will see whether they deserve a tribute.

Mr George Cunningham: Will the right hon Gentleman bear in mind that, despite this regrettable incident, the Crown Agents have a very high reputation throughout all aid donors in the world for providing facilities in developing countries which no other donor can equal?

Will the report, if it is not to be published, at least be given to the overseas principals which use the Crown Agents so that they can be sure that things have now been put right inside the Agency?

Mr Wood: I am glad that the hon Gentleman made the first point. I should like to have made it myself. I think that the confidence of the principals in the activities of the Crown Agents is shown by the amount of business that they place with the Crown Agents.

As I explained to the right hon Lady, I have taken the view that the report should not be published. As the report is about the desirable relationships for the future between the Crown Agents, on the one hand, and Her Majesty's Government, on the other hand, I have naturally kept the various principals fully in the picture so that they will know what is happening, and I am certain that the existence of the Committee will not impair the relationship between the Crown Agents and their principals.

Mrs Hart: May I press the right hon Gentleman a shade further on the question of publication. As he will appreciate, my concern was that the constitutional relationship in this case between a Minister and the Crown Agents whom he appointed but who had no other responsibility whatever, either financial or otherwise, to government seemed unsatisfactory. To the extent that the inquiry is directly concerned with this constitutional relationship, I believe that this is a matter which it would be perfectly proper to make public knowledge. We do not have other constitutional relationships between Ministers and inside bodies or public bodies which are not known fully to Parliament.

Mr Wood: The right hon Lady will understand that the committee will have to consider in some detail the relationship between the Crown Agents and the principals as well as the relationship between the Crown Agents and Her Majesty's Government. That is why I promised to make a further statement to the House when I receive the Committee's advice in the light of what the Committee thinks should be the future relationship between the Crown Agents

and Her Majesty's Government. However, I do not think it right to publish the report. I do not think the report could be nearly as useful if I did not make that statement.

Following is the information:

The Committee's terms of reference are to consider whether there is a need for any changes in the status, functions and financial operations of the Crown Agents, including particularly their relationship to Her Majesty's Government, having regard to:

Developments which have taken place in recent years in the nature of their functions and in the constitutional status of their principals;
and to the United Kingdom's own interests including the needs of the remaining dependencies;

and to make recommendations on the nature of any such change. The Chairman is Sir Matthew Stevenson, KCB, CMG, and other members are:

Sir Glyn Jones, GCMG, MBE.

Mr M J Verey.

Sir Charles Whishaw.

On 24 July 1972, the Minister for Overseas Development (Mr Richard Wood) gave the following reply to questions from Sir Bernard Braine and Mrs Judith Hart. He also circulated a written statement reporting on the advice given him by the Stevenson Committee.

CROWN AGENTS

(Stevenson Report)

36. **Sir Bernard Braine** asked the Secretary of State for Foreign and Commonwealth Affairs if he has received the report of the committee, under the chairmanship of Sir Matthew Stevenson, which has been inquiring into the status and functions of the Crown Agents; and if he will make a statement.

38. **Mrs Hart** asked the Secretary of State for Foreign and Commonwealth Affairs if he has now received the Stevenson Report on the Crown Agents; and if he will reconsider his decision on its publication, in view of the public importance of the relationship between Her Majesty's Government and the Crown Agents.

Mr Wood: I have received the committee's advice and with permission I will circulate a statement in the OFFICIAL REPORT. Briefly, the committee found that the interests of the Crown Agents' principals and others concerned would best be served by the continuation of the whole range of services which the Crown Agents provide. I welcome these findings, which reinforce my confidence in the Crown Agents' work for their overseas principals. I also accept the committee's recommendations that there should be a clearly defined status, structure and responsibility for the Crown Agents and that they should bear appropriate liability to taxation. I am considering how these conclusions can best be given effect and I will later make a further statement. I would like to record my gratitude to the committee for its advice. Since most of the Crown

Agents' work is for independent Governments, it would not be right to publish the report.

Sir Bernard Braine: Will my right hon Friend assure the House that the changes he has in mind are in the best interests of the overseas principals? Secondly, bearing in mind the very long and valuable service that the Crown Agents have given their Commonwealth principals over very many years, will my right hon Friend confirm the impression that a good many of us have had for a long time that the Crown Agents are continuing to serve their principals with skill and integrity?

Mr Wood: I have every confidence in the integrity of the Crown Agents, and I agree with my hon Friend about the value of the work they do for their overseas principals. In my opinion the value of that work will be enhanced by changes of the kind I have in mind to make.

Mrs Hart: Is the right hon Gentleman aware that when I spoke to him on the telephone last week and he told me that his reply might be too long to give orally, I had no idea that in addition to refusing to publish the report he would issue a statement of the results of the report only in a Written Answer? This is quite disgraceful and it astonishes me. May I put this point to the right hon Gentleman? Is he aware that in the light of recent discoveries about relationships between civil servants and Governments and between Ministers and Governments following the Poulson investigations, it is irresponsible and inconceivable that a full report should not be published, though not necessarily containing the evidence given by other countries? One can understand that that would not be possible. But is it not irresponsible on behalf of the Government not to publish the findings of this report since they relate to the relationship between employees of the Government and the Government itself?

Mr Wood: Perhaps I might begin by setting the right hon Lady's fears at rest about the longer statement that I mean to issue. I assure her that it will contain no surprises. I have summarised it adequately in my shorter answer. As for what she terms the irresponsibility of not publishing the report, I think it would be utterly irresponsible to publish a report which I undertook at the time that I set up the committee would not be published, for reasons that the right hon Lady knows. What is more, knowing what the right hon Lady does about the relationship between the Crown Agents and their principals, I am certain that if she were standing at this Dispatch Box she would take the same view.

Mrs Hart: As one who initiated this report towards the end of the period of the Labour Government, I must tell the right hon Gentleman that I should not take the view he is now taking. I accept that evidence given by other countries should remain confidential but I do not see why that should preclude publication of the conclusions of Sir Matthew Stevenson and his colleagues, and I do not see why the House and the public should be kept in the dark about the reasons why they have come to the conclusions they have.

Mr Wood: When the committee was set up, with the concurrence of my right hon Friend, so that the whole relationship between Her Majesty's Government and the Crown Agents could be examined—which, incidentally, impinges on the Crown Agents' relationship with the principals—I undertook that the

report would not be published. It is on that basis that the inquiry has taken place. Therefore it would be utterly irresponsible if the report were now to be published.

Following is the statement:

I told Parliament last November that I had appointed a Committee under the chairmanship of Sir Matthew Stevenson to consider the need for any changes in the status, functions and financial operations of the Crown Agents. I now have the committee's advice.

It surveyed all the Crown Agents' activities, which include a very wide range of services on behalf of nearly 300 overseas principals. The committee found that the Crown Agents are providing competent and economical services, of great value to their principals overseas, and that their interests and those of Her Majesty's Government and the remaining British dependencies, are best served by the continuation of this full range of services. I welcome these findings, which reinforce my confidence in the Crown Agents' work for their overseas principals.

The committee, however, commented on the constitutional position of the Crown Agents, and the Government's undefined residual responsibility for them. The committee recommended that there should be a clearly defined status, structure and responsibility for the Crown Agents, and made some suggestions for consideration. The Crown Agents, but not their subsidiary companies, have Crown exemption from taxation. The committee recommended that they should bear an appropriate liability to it. I accept these recommendations and am considering how best they may be given effect. I will later make a further statement.

The main overseas principals have been told of these conclusions, which I believe will further strengthen the Crown Agents in their special relationship of trust with overseas Governments, built up by their long-established activities on behalf of all their principals. I will get in touch with the main overseas principals again as plans develop.

I am extremely grateful to Sir Matthew Stevenson and the members of his committee for their thorough work and wise advice.

Since most of the Crown Agents' work is for independent Governments, it would not, as I made clear in my statement last November, be right to publish the report.

On 21 November 1973 the Minister for Overseas Development (Mr Richard Wood) made a further statement announcing the Government's agreement to the establishment of subsidiary companies to deal with financial services, and guidelines for investment policy.

CROWN AGENTS

The Minister for Overseas Development (Mr Richard Wood): With your permission, Mr Speaker, and that of the House, I would like to make a further statement on the Crown Agents. In my statement last year, I said that I welcomed the findings of Sir Matthew Stevenson's Committee, that the interests

of the Crown Agents' principals and others would best be served by the continuation of the whole range of services which the Crown Agents provide. I also accepted recommendations that the status, structure and responsibility for the Crown Agents should be clearly defined, and that they should bear an appropriate liability to taxation.

The Crown Agents originally came into being primarily to provide certain financial and purchasing services in Britain for countries which were then dependent. The range of their services, conducted on a non-profit making basis and contributing to the development of the countries concerned, has been progressively made available to a large number of countries, most of them now independent. The scope of their activities has also been extended to cover a wide range of technical and financial services.

The Crown Agents have adapted their organisation and structure over the years in order to meet these widening requirements, and in particular have established certain of their services on the basis of fully-owned subsidiary companies staffed by Crown Agents' personnel. In the light of the Stevenson Report, I have agreed that this process should be extended by the establishment of further wholly-owned subsidiary companies to deal with the specialised financial services of the Crown Agents. The boards of management of those companies will include non-executive directors appointed after consultation with me, as well as executive directors drawn from the Crown Agents' staff. The Crown Agents intend that the investment policy pursued by these companies should be generally in accord with the trustee analogy and should be fully consistent with their name and standing. These subsidiary companies will be subject to taxation in the normal way, and arrangements are also being made to bring any profits which may be made by the headquarters' organisation itself within the scope of normal taxation.

The Crown Agents will, as in the past, be appointed by the Secretary of State, or by myself acting on his behalf, for the purpose of carrying out the various services on behalf of the overseas principals. They will thus remain answerable finally to Ministers, but it is neither my intention nor my desire to disturb the traditional practice under which the operations of the Crown Agents on behalf of their overseas principals have been discharged on a basis of non-intervention by Ministers.

In the future, as in the past, the scale and scope of the Crown Agents' operations will depend on the confidence which overseas governments and authorities repose in the organisation. That confidence is fully reflected in the present scale of operations, and I am particularly anxious that the arrangements I have mentioned, which are designed to produce a more readily comprehensible structure and to define the various functions more clearly, should in no way disturb that confidence. I have made this clear to the main overseas principals when I told them the outline of the new arrangements.

Finally, I should once again like to take this opportunity of thanking Sir Matthew Stevenson and his Committee for its report, and of sincerely endorsing the tributes which it paid to the work of the Crown Agents.

Mrs Hart: I thank the right hon Gentleman for his statement. As he knows, we have waited for it for a long time. First, I endorse what he said about the

confidence which principals may continue to have in the work of the Crown Agents. It is important to say that that is endorsed by both sides of the House.

The Opposition are aware that the present financial operations of the Crown Agents involve them in at least £50 million worth of investment in equities and that some of the equities had rather unfortunate results last year. It seems from his statement that he is proposing not to change basically the relationship between himself and the Crown Agents. The right hon Gentleman will continue to appoint but, as he knows, one of the great problems—this was my opinion when I was his predecessor in office—is that the power to appoint Crown Agents has no corresponding responsibility on the part of the Crown Agents to report to Government. Will there be any change in that respect?

The right hon Gentleman said that the Crown Agents will remain answerable finally. In what way will they be answerable? Will they report to him? Will the report be published? Will it be available to hon Members? Will it be subjected to parliamentary questioning?

The right hon Gentleman says that in the new extended financial operations of the Crown Agents there will be non-executive directors appointed after consultation with him. What precisely will be their non-executive functions? He says that the companies will have to act, will be expected to act or will be intended to act in accord with the trustee analogy. Will he tell us precisely what he means? Does he mean that they are not to have equity shares or equity shares of a speculative character? How does he propose to prevent that happening? Will they no longer invest in property companies?

Depending on the right hon Gentleman's answers, it may well be that we shall wish to explore the matter in greater depth.

Mr Wood: The suggestion which I have made to the Chairman of the Crown Agents is that he should be willing—and he agrees—to discuss with me any important developments or changes in the policy of Crown Agents.

The function of non-executive directors will be similar to the functions of such directors of other companies of all kinds—namely, to give advice and to help in the taking of decisions by the companies with which they are connected.

The investment policy pursued by the companies should be carried out in accord with the trustee analogy and should be fully consistent with the Crown Agents' name and standing. That means that they will be guided largely by the trustee analogy but not prevented from making investment outside that analogy if the companies so decide.

Sir Bernard Braine: Is my right hon Friend aware that his statement will be welcomed by all who recognise the importance of the Crown Agents' work, who have been concerned about critical comment which has recently appeared in the Press? So that we may get the matter into perspective, will he confirm that the success of the Crown Agents' investment policy on behalf of the governments of many developed countries has contributed to those governments placing additional funds and additional orders with Great Britain?

Mr Wood: I entirely agree with my hon Friend. The confidence that is shown by the principals in the Crown Agents is unmistakeable. I believe that as a

result of my statement the principals will take the view that the Crown Agents are strengthened to do the job for the principals which they have been doing and which they will continue to do.

Mr David Steel: While the right hon Gentleman's statement may strengthen the Crown Agents, will he answer the question posed by the right hon Member for Lanark (Mrs Hart) about parliamentary answerability and the link between the Crown Agents' work and the Minister's rôle?

Mr Wood: I do not think that it would be right for discussions between myself and the Crown Agents about the development of their policy to be reported to parliament. I do not believe that that would be in the interests of the relationship between the Crown Agents and the principals. To an extent that must be a confidential relationship. It would be wrong for such matters to be discussed in Parliament because this relationship between the Crown Agents and the principals would be gravely undermined.

Mr George Cunningham: Will the right hon Gentleman acknowledge that nothing in his statement reflects the fact that apart from the operations which the Crown Agents have undertaken on behalf of principals overseas, they have raised on the market £34 million and invested that as they pleased without being answerable to their own chief principals? Will the right hon Gentleman acknowledge that there will be amazement in the Press and elsewhere that he has made his statement without mentioning that the director of finance of the Crown Agents until a few weeks ago has been appointed the deputy chairman of First National Finance Corporation, a company in which the Crown Agents have an 8½ per cent ordinary share holding, 6 per cent of it being held on behalf of overseas principals?

Does the right hon Gentleman intend to say nothing about the fact that Crown Agents' money has gone into the notorious property empire of John Chalk and Timothy Gwyn-Jones? Will he recognise that there is a scandal which is waiting to blow? Unless we investigate the matter fully with sufficient openness but with confidentiality to reflect the circumstances, the traditional work of the Crown Agents, which is of enormous value throughout the world, will inevitably be prejudiced.

Mr Wood: The purpose of the Crown Agents indulging in the activities to which the hon Gentleman refers is largely to build up the reserves of the Crown Agents, which are largely to the benefit of the principals themselves, and the principals have shown their confidence in this policy. I understand that the hon Gentleman has a Question to put to me next week about the appointment of Mr Challis, but, having made this statement today, I should tell the hon Gentleman that the Chairman of the Crown Agents, when the appointment was mooted, considered Mr Challis in the way in which a civil servant would be considered. He consulted me, and I consulted others. I therefore share the responsibility for it. I had no reason to object to this appointment because I believed that it was in line with the rules that apply to the Civil Service.

Mr Hordern: Is my right hon Friend satisfied that he has the consent and approval of the Crown Agents' principals to these proposals? Would he agree that nothing should be done that could impair the close confidence which the Crown Agents' principals of various Commonwealth countries have in the

operation of the Crown Agents' themselves? Would he also accept that the Commonwealth countries are perfectly capable of deciding who should look after their own affairs?

Mr Wood: I am entirely in agreement with my hon Friend. I believe that the assent of the principals to these arrangements is of immense importance, and that is the reason why I took the opportunity to tell them what was happening. I believe that my statement will do nothing to damage the confidence that exists between the principals and the Crown Agents.

Mr Dalyell: In relation to the trustee analogy, may I confirm that the Minister used the phrase "if the companies so decide"? Does this mean that speculative investment can go on without his Department being told?

Mr Wood: It means purely that the trustee analogy will not be wholly restrictive, that the Crown Agents can make investments, if they so choose, outside the trustee analogy, and would be guided in doing so not only by the executives of the Crown Agents' staff themselves but by the non-executives, who would be appointed after consultation with me.

Mr Skinner: Would the right hon Gentleman go even further and issue an instruction to the Crown Agents to stop any investment in these slum property speculations?

Mr Wood: No, Sir.

Mr Costain: Does my right hon Friend see any different relationship between the Crown Agents and Millbank Services?

Mr Wood: No, Sir. There is no connection.

Mr Freeson: The Minister gave a scandalous answer to my hon Friend the Member for Bolsover (Mr Skinner), who asked whether any instruction would be given by the right hon Gentleman to the Crown Agents to cease investments in slum property. Is the right hon Gentleman aware that there is critical concern about activities in this direction? Is he further aware that in such a matter there is a balance of responsibility and confidence between the principals overseas and this House and this country? Surely any decision he takes should reflect that as well? Will he think again about his answer to my hon Friend?

Mr Wood: I said, "No" to that question because the Crown Agents have neither made nor contemplated making such investments.

Mr George Cunningham: Nonsense.

Mr Wood: I will elucidate. I think the hon Member for Islington, South-West (Mr George Cunningham), with his great interest in this matter, has in mind certain investments made in the First National Finance Corporation. This is a company in which the Crown Agents have a limited financial interest. The Crown Agents have not made investments in slum property. There were investments made by the First National Finance Corporation. I have no doubt, and never have had any doubt, about the integrity of the Crown Agents. We can all have our judgment of their judgment. The hon Gentleman has his judgment about their judgment. The principals also have their judgment about the Crown Agents' judgment and have expressed their confidence clearly.

Mrs Hart: Amongst the investment subsidiaries of the Crown Agents have been a 51 per cent controlling interest in the English and Continental Property Company and substantial interests in Metropolitan Properties Limited, and many of the property companies they have invested in during the last few years have certainly been speculative. The right hon Gentleman says that the trustee arrangements are proposed to hold good, and the question is whether he proposes that those arrangements will or will not exclude property dealings. [HON. MEMBERS: "Oh."] I think hon Members opposite are a little less informed about this matter than are some of my hon Friends.

What matters here is whether the right hon Gentleman is prepared to say to the Crown Agents that these new arrangements on the trustee analogy should exclude investments in speculative property developments. This is the point about which the Opposition are rightly concerned. The right hon Gentleman has said that the Crown Agents will finally be answerable to him, but he is, of course, answerable to this House. What is to be the relationship between his answerability and their answerability to him, because the situation is profoundly unsatisfactory? Finally, what is to be the position about the personal shareholdings of nominee directors?

Mr Wood: I hope I can remember all the right hon Lady's questions. The question of answerability is dealt with in the fact that the Crown Agents are appointed by the Secretary of State or by myself and therefore they are answerable to us in the final analysis.

I am sorry, but I cannot remember the right hon Lady's next question.

Mrs Hart: How is the right hon Gentleman to be answerable to Parliament for them?

Mr Wood: I am answerable to Parliament. That is obvious at the moment, when I am being asked so many questions.

Mr Cunningham: The first time in three years.

Mr Wood: It is not the first time in three years. I have been bombarded by questions and I have done my best to give as full answers as possible. That deals with the question on answerability.

Perhaps the right hon Lady will remind me of her other questions. I am afraid that I did not write them down.

Mrs Hart: There were two other questions. The first was whether trustee shareholdings should exclude speculative property investment, and the other concerned the position of personal shareholdings of nominee directors.

Mr Wood: On the question of trustee shareholdings, I said that the policy should be carried out

“ . . . in accord with the trustee analogy and should be fully consistent with their name and standing.”

I think the right hon Lady would be wrong to get this matter entirely out of perspective. The percentage of the Crown Agents' investment at the present time in property is 1 per cent and therefore——

Mr Cunningham: How much money?

Mr Wood: Not very much. As I was saying, the right hon Lady is over-estimating the problem.

I made a fairly full statement about the personal holdings of the Crown Agents in the investment companies concerned on a previous occasion, and I do not think I can add to what I said then.

On 31 July 1974 the Minister of Overseas Development (Mrs Judith Hart) announced her intention to appoint a Board of Crown Agents and to give them directions about the conduct of their own-account business.

CROWN AGENTS

Mr George Cunningham asked the Minister of Overseas Development if she will make a statement on the future rôle and structure of the Crown Agents.

Mrs Hart: The House will recall that in 1970 I instituted inquiries into the constitutional relationship of the Crown Agents. The right hon Member for Bridlington (Mr Wood) took the matter further and appointed the Stevenson Committee. In the light of my own further study, I would like to tell the House what I now propose.

As background, I emphasise that the Crown Agents have a long history of efficient and comprehensive services to countries overseas in the fields of procurement, inspection, engineering, finance and a variety of personnel services. During the nineteenth century and for most of this one they acted essentially for the Colonies who were, of course, within the responsibility of the Secretary of State. In the last 15–20 years they have acted mainly for independent countries, mostly members of the Commonwealth, and also for the remaining dependent territories. For a historical perspective I recommend the 1909 Report of the House of Commons Committee chaired by Colonel Seely, the Parliamentary Under-Secretary of State (Cd. 4473).

The services they provide are excellent, and are very much appreciated by their overseas principals. They have an efficient and dedicated staff. It is important that their relationship of confidence with their overseas principals remains undisturbed, and that the customary standards of commercial confidentiality will continue to be observed in their transactions. This was the right hon Gentleman's conclusion, and it is mine also.

Procurement this year is running at the rate of about £160 million annually. Deposits from principals are about £300 million and funds managed on their behalf are valued at about £850 million. These figures give some indication of the scale of the work of Crown Agents. In recent years, as is, I think, well known, they have extended their financial operations on their own account with the objective of building up their reserves. Some of these, particularly those concerned with property, have become the subject of public comment. Given the ultimate responsibility of the Crown Agents to Government, I have therefore decided to make changes in their structure which will not, however, affect their relationship with overseas principals.

Sir Claude Hayes, who is now and has for some time been the sole Crown Agent, has carried an extremely heavy burden. He would normally have retired

earlier this year and I am grateful to him for his willingness to continue in office for a little while longer in order to ease the transition to the new arrangements I now propose.

I am appointing a Board of Crown Agents which will have a full-time chairman and will include up to seven part-time members. I shall announce names shortly.

The board will be required to transmit to me an annual report and accounts which I propose to make available to Parliament. The board will be responsible to me for the organisation and general administration of the Crown Agents' business and I reserve the right to give them directives from time to time.

I shall of course continue the practice of non-intervention in the activities of the Crown Agents on behalf of their overseas principals. In such matters they will continue to act strictly according to the instructions of their principals.

In their own-account business I shall direct that the board pays due regard at all times to the best standards of banking prudence and does not engage in transactions which might embarrass Her Majesty's Government or conflict with the interests of its overseas principals. It should not engage directly in the property market, other than in respect of property for its own occupation, any extension in the property field being subject to my prior approval. Of course, I do not intend that existing obligations should be called in question or interfered with.

As the House will appreciate, this is not an easy area in which to achieve the best balance between commercial activities, responsibility to overseas principals, and responsibility to the Minister who appoints the Crown Agents. But I believe that the new structure and guidelines I have outlined will allow the Crown Agents to operate effectively on their own account with a full sense of social responsibility and without in any way disturbing the confidence placed in them by countries overseas, which is so well merited.

On 18 December 1974 the Minister of Overseas Development (Mrs Judith Hart) told the House of the Crown Agents' financial difficulties and announced the Government's intention, subject to Parliamentary authority, to provide a recoverable grant of £85 million.

CROWN AGENTS

The Minister of Overseas Development (Mrs Judith Hart): With permission, I wish to make a statement about the financial position of the Crown Agents.

The House will recall that on 1 July I announced my arrangements for the restructuring of the Crown Agents. There is now a Board of Crown Agents, including up to seven part-time members with a full-time chairman. After discussion with the new chairman I agreed as an interim measure to appoint only three part-time Crown Agents in view of the immediate and pressing problems facing him. While continuing the practice of non-intervention in the activities of the Crown Agents on behalf of their overseas principals, I reserve the right to give the board directives, and indeed have already done so in relation to their own account business.

The new chairman of the Crown Agents, John Cuckney, who took up his appointment on 1 October, appointed Coopers and Lybrand as consulting accountants to review the present financial position and the future financial requirements of the Crown Agents and their subsidiary companies. Morgan Grenfell and Company Limited have since been appointed to advise on general banking matters.

The chairman, supported by the three members newly appointed to his board, has now reported to me that a decline in market value of some of the assets of the Crown Agents has led to an immediate problem of reserves and liquidity. He has made a formal request to the Government for financial assistance.

The requirement is related to the realistic writing down of assets values in the accounts, and to the need to ensure financial backing appropriate to operations involving some £600 million, excluding funds of some £200 million managed for principals.

The Government have agreed to provide £85 million, subject to parliamentary authority, which will be recoverable, by direction, from future earnings or appreciation of assets. Standby facilities have been arranged by the Bank of England.

These arrangements will demonstrate beyond all doubt that the Government stand behind the Crown Agents so that the position of all depositors is fully safeguarded; that the confidence of their overseas principals is fully maintained; and that the important services provided to the principals are continued. In the light of the history of the relationship between Government and the Crown Agents in the last four years, involving, as it has, my own initiations of inquiries in 1970, followed by the Stevenson Report to my predecessor, the right hon Member for Bridlington (Mr Wood), which was unpublished, and the inquiries made by a Select Committee of this House, hon Members will clearly want to know how the circumstances necessitating this financial support have arisen. I have asked the Chairman of the Crown Agents to send me a full report on this, and I shall keep the House informed. Thereafter I shall consider whether any further action is necessary.

I have also asked to be informed in detail of outstanding longer-term commitments of the Crown Agents, including certain property investments in Australia, and of any suggestions which the new board may have for the organisation and management of its financial business in the future. I have reserved the right to direct that moneys now being advanced shall be repaid from Crown Agents' resources in the course of any reconstruction of the business.

The House will, I know, appreciate that the present Chairman, John Cuckney, and the three members of his board, John Goble, John Gordon and Leslie Kirkley, have had only a very short time to assess the position and report to the Government. On taking office they were confronted with most difficult circumstances, as the House will clearly understand.

This situation, which I am sorry to report to the House, is one which we are seeking to correct. I am immensely grateful to them and would like to take this opportunity to tell the House that I have complete confidence in them. Their prime concern, as it is mine, and, I am sure, that of the House, too, will be that

the Crown Agents, with their long history of service and capability, are able to continue to provide for their overseas principals the full range of their services.

Mr Rippon: I thank the right hon Lady for making her statement at the earliest opportunity. May I also express a welcome for the Government's determination to maintain full confidence in the Crown Agents? As the statement says that parliamentary authority will be required for the £85 million, does the right hon Lady expect a debate to take place so that we may have the opportunity of a fuller discussion?

Can the right hon Lady say a little more about the terms and conditions on which the £85 million is to be provided? In particular, what is meant by the phrase "recoverable, by direction"? Is it to be a loan, or a grant, or what?

Not only do I welcome what the right hon Lady said about a full report being made by the chairman in due course and further statements being made by herself, but I associate the Opposition with what she has said about the confidence which we should have in the new chairman. He has had great experience in public service and outside it, and we fully share the sentiments which the right hon Lady has expressed about him.

Mrs Hart: I am grateful to the right hon and learned Gentleman. As to whether it is a loan or a grant, the position is that the money will be advanced to the Crown Agents but, given the reconstruction of the business that they would contemplate carrying out, there are clearly possibilities that much of it can be recoverable as their assets increase in value or as they make certain changes. Therefore, the position is a little flexible, but we hope that there will be the possibility of recovering some of the money. Nevertheless, it is not precisely a loan, but a grant which we hope will be recoverable. [HON MEMBERS: "Oh."] Right hon and hon Gentlemen opposite must understand that a situation which has been in the making for at least four or five years is not so easily recoverable by a single stroke of the pen on one day. That is the arrangement we have made, and I think that the right hon and learned Gentleman will agree that on the whole it is the best arrangement to be arrived at.

The question whether there will be a debate is a matter for the House. I shall be reporting further, and it will be necessary to consider what kind of inquiry should take place. I hope that the House will have a little patience about this because the overseas principals are involved and they, too, will need to be consulted about the form it should take. There is no doubt that the House will be more fully informed and will have a full opportunity to consider the position which has arisen.

Mr George Cunningham: Will the Minister agree that these enormous difficulties are exactly the difficulties which many of us have been predicting for a long time in the light of the odd constitutional relationship between the Crown Agents and the Government? This is characterised by at least one hon. Member on the Opposition benches for attack as a phoney campaign. Will my right hon Friend say roughly how much of the loss sustained on the investment side of the Crown Agents' business is attributable to the fall in the value of shares of First National Finance Corporation, one of whose present deputy chairmen was, immediately before he took up that position, Financial Director of the Crown Agents?

Finally, will my right hon Friend say whether the Government of the day ever gave to the Crown Agents approval to go into this business of investment by comparison with their traditional buying and selling rôle, which I am sure continues to have the full support of everyone in the House?

Mrs Hart: My hon Friend and I, as I know one or two other hon Members appreciate, have had a continuing and deep concern about the position of the Crown Agents and their involvement particularly in the money market and the property market. That may not be known to some hon Members, but it is so, and the Select Committee on Overseas Development gave some consideration to these matters.

I cannot give my hon Friend a precise answer as to the involvement of a particular company. I can tell him that one of the factors involved, which is not unexpected, is that the Crown Agents had considerable investments in property. The decline in property values over the last year has intensified the problems that might concern any organisation that put a great deal of money into property, and this is a matter which is dealt with in the report which I have had from the Chairman of the Crown Agents. The further report which I shall hope to make available to the House, at least in summary, will show that clearly.

As to the member of the Staff of the Crown Agents to whom my hon Friend referred, that is a matter which is perhaps better not discussed in the House at the moment, as my hon Friend will appreciate. If there is an inquiry, whatever form it takes, it might well be a proper subject for the inquiry.

Mr Pardoe: Is the right hon Lady aware that the House will be somewhat mystified, in that the Government appear to have agreed to provide £85 million but have only now asked for a full report into the circumstances which make this financial support necessary? Does not the Minister think that it might have been better to have asked for the full report first and to have provided the finance thereafter?

Although many will welcome the fact that the Government stand behind the Crown Agents, is the right hon Lady aware that if this kind of nonsense goes on the world will want to know who stands behind the Government?

Mrs Hart: I am afraid that the hon Gentleman is falling rather short of his own standards here. He might be well advised to do a little research into the reports of the proceedings of the House in HANSARD over the last four years. It is all there.

I was the first to express serious concern early in 1970 when I was Minister of Overseas Development. That led to my asking my Department for a paper on the constitutional relationship between the Crown Agents and the Government, which was somewhat obscure. That led my predecessor the right hon Member for Bridlington (Mr Wood) to ask for the Stevenson Inquiry which, reported, but that report despite pressure from the then Opposition, was not published. That led to the Select Committee's inquiries which, as soon as I came back into Office in March, led to my initiating changes in the structure which in turn led to the revelation of what has been going on. The hon Member for Cornwall, North (Mr Pardoe) would do better to do some research.

Sir G de Freitas: Will my right hon Friend recognise that many of us who have followed for some time the affairs of the Select Committee and the Crown

Agents were highly critical in the past? However that may be, there are many of us now who give full support to the present Crown Agents and their chairman?

Mrs Hart: I am grateful to my right hon Friend. I must be absolutely frank with the House. This is an unfortunate report to have to make to the House. It follows a series of events and a history of some years. I think that we are now doing the right thing, and I am certain that the Government's duty is to give full backing to the Crown Agents because of their importance and value and because the name of Britain is involved.

Sir Bernard Braine: Does the right hon Lady accept that there are some Opposition Members—I was, after all, Chairman of the Select Committee that inquired into this matter—who were anxious about the financial activities of the Crown Agents precisely because they cut across a superb, unique record of service to the Crown Agents' principals in the Commonwealth and to the British economy? I very much welcome, although with some sadness, the statement which the right hon Lady has made today. May I ask whether at any stage any of the principals have been critical of the conduct of the Crown Agents in the carrying out of their normal business?

Mrs Hart: The answer to the last part of the question is "No". What emerges is that the matter is not as simple as the right hon Gentleman might suppose. The answer is "No". The overseas principals still have every confidence in the Crown Agents, and I should like to reinforce what the right hon Gentleman said. What we are talking about today is the consequence of operations in the money market and the property market which left undisturbed the complete efficiency and good faith of the operations of the Crown Agents in procurement and in service, which are the real bases of their operations.

On 23 April 1975 the Minister of Overseas Development (Mrs Judith Hart) made a further report to the House about the Crown Agents' financial position, and announced her decision to set up a Committee of Inquiry under Judge E S Fay QC.

CROWN AGENTS

The Minister of Overseas Development (Mrs Judith Hart): With permission, I wish to make a further statement about the Crown Agents.

The House will recall that just before it rose for the Christmas Recess I explained the immediate problems of the Crown Agents' reserves and liquidity which had been reported to me by the new Chairman and board, and announced the Government's agreement to provide immediate support of £85 million and the agreement of the Bank of England to provide standby facilities.

So far the Crown Agents have found no need to draw upon either the £85 million or the standby facility at the Bank of England to meet liquidity problems. We shall all hope that this will continue to be the case. But the support of the Government stands firm and ready. The grant is there to cover prudent writing down of assets as necessary, and to provide a capital base.

I would also like the House to know of the confidence I have in Mr John Cuckney, the new Chairman of the Crown Agents, and in his board. In the most

difficult circumstances, they are overcoming the problems they faced on appointment with considerable success. Since December, overseas principals have increased the scope and scale of their business with the Crown Agents. Confidence has increased, and it is right that this should be so, for the steady and gradual withdrawal from property investments and secondary banking, according to my directive, is restoring a fundamental financial soundness in their operations.

I have now made further appointments to the board. I have appointed Mr Harry Hoff, Mr James Jack and, with effect from 1 July, Mrs Hester Boothroyd to join Mr Leslie Kirkley and Mr John Gordon as members of the board. I have also appointed Mr John Goble, at present a member of the board, as Deputy Chairman.

I promised to keep the House informed. I can now make an interim report—not yet a final one, for reasons I shall make clear. In doing so, I know the House will understand and appreciate that it concerns not the present but the past.

The chairman has provided me with his board's views on the circumstances which led to the need for financial support, which have been assisted by the investigations carried out by Coopers and Lybrand, the consulting accountants. These are not yet complete. They have had to work on a very large number of transactions made over a long period of time.

The principal factors which the board considers to have contributed to the problems are: first, the operation of a substantial banking business without an adequate capital base; second, over-dependence on the property and secondary banking sectors, and commitment of an unduly large proportion of the total banking resources to a small number of borrowers; third, inadequate controls and procedures for approving and monitoring loans to subsidiary and associated companies, for security for advances, and for the delegation of authority; fourth, lack of outside commercial banking experience among senior staff. These defects of the past are rapidly being remedied.

The Government have reached two major conclusions in the matter. We believe it important and necessary, and the board of the Crown Agents recommends it, to arrange for an independent inquiry into past events and the circumstances giving rise to the need for Government support. Accordingly, I have decided to set up a committee of inquiry with the following terms of reference:

“To inquire into the circumstances which led to the Crown Agents requesting financial assistance from the Government.”

The inquiry will be conducted by Judge Fay, sitting with Sir Edmund Compton and an accountant. There will, of course, be complete protection of the confidential interests of the overseas principals.

We also propose to give further consideration to the relationship between the Crown Agents and the Government. I shall present a White Paper to the House at a later stage—I hope during this Session—with my detailed proposals, along with the necessary background information about past custom and practice.

Now that I have presented those two major conclusions, I know that hon Members will wish to join with me in expressing their confidence and support

in the present chairman and his board, and in congratulating them on their very great success in the last few months.

Mr Wood: Does the right hon Lady recall chiding me, in that gentle way she has, with delay in these matters? Does she recognise that she started these investigations in the 1960s and they now look like going into the late 1970s if, indeed, she is still responsible for conducting them?

In the statement in which the right hon Lady has announced the setting up of the inquiry has she not to a large extent prejudged the findings of the inquiry? Finally, what powers is the committee of inquiry to have? Amongst other things, will Sir Claude Hayes and others closely concerned have full freedom to state their views in accordance with the recommendations of the Salmon Committee?

Mrs Hart: I confess that I am a little surprised at the right hon Gentleman's tone. He will recollect, because he has great knowledge of this matter, that I had asked for a study to be made of the constitutional relationship between the Crown Agents and the Government in the last few months of 1970 when I was in my present post, in which the right hon. Gentleman succeeded me. He is right to say that I chided him from time to time in the House, as did one or two of my hon Friends. We then had the Stevenson Report, which the right hon Gentleman refused to publish. I think it is fair to say that this Government have done their best to come to grips with a situation in which that was greatly needed.

As for the right hon Gentleman's second point, the inquiry will be conducted by Judge Fay, Sir Edmund Compton and an accountant yet to be named. I am sorry that I cannot give the name of the accountant today. We have no reason to suppose that any information requested will not be forthcoming. I am certain, though this is a matter for the inquiry itself, that it will wish to have discussions with all those who have been involved in Crown Agents' matters over the past few years.

Mr George Cunningham: Will my right hon Friend accept congratulations on the speedy clean-up job she has done over the past 10 months or so? Will she answer these questions? First, while the inquiry is being conducted, and indeed from now on, can we be sure that the annual reports produced by the Crown Agents will give very full information about the holdings they have, whether directly or indirectly, and the companies with which they have commercial association?

Secondly, am I right in assuming that if the Crown Agents draw upon any part of the £85 million standby cover they will be answerable to the Public Accounts Committee but that they will not be answerable to the Public Accounts Committee otherwise?

Mrs Hart: I confirm that what my hon Friend said in the last part of his question is indeed so. I hope and believe that it will not prove necessary to draw on the £85 million. Indeed, it is very gratifying to be able to say that this has not needed to be drawn on up to now. I hope that that situation will continue. However, should there be drawings, this would be a matter in which the accounting officer of my Department would hold responsibility and it would be a matter for the Public Accounts Committee.

On my hon Friend's first point, he will know that as from now—I think I have given this information before, and certainly the Crown Agents have—the annual report of the Crown Agents is now, as distinct from past practice, to be submitted to me so that I may make it available to Parliament, and the accounts will similarly be made available to Parliament. The audited accounts for the last possible year—1972—are already in the Library. I think my hon Friend will find that they give the kind of information that is needed, but I am certain that if this proves not to be the case the Crown Agents or myself would be very responsive to any discussion about what further information they might include.

Mr Hordern: May I echo the confidence in Mr Cuckney and the efforts that he has so far made? With respect to the inquiry which is about to take place, may we take it that the findings in the Coopers and Lybrand report are temporary findings and are liable to the fullest possible justification by the full judicial inquiry which is to take place later?

On that point, will the right hon Lady not only allow that inquiry to make the fullest inquiries into all the matters which have occurred in the past but allow Sir Claude Hayes, in giving his evidence, to see the findings which that judicial inquiry may make, unlike the practice in the past in Department of Trade investigations, and allow him to comment on any findings that the inquiry makes before those findings are published?

Mrs Hart: Obviously, the detailed conduct of the inquiry must be a matter for Judge Fay, who will be leading it, and for the other members of the inquiry. It never has been the practice in the past for a Government, having set up an inquiry, to regulate the precise way in which the inquiry is to be conducted, but I am certain that the inquiry will wish to give every opportunity to all concerned fully to be acquainted with the whole situation and to say whatever they want to say. I think that is much the fairest way of conducting it.

Mr Skinner: Will my right hon Friend agree that one of the important reasons why it has been her duty to tell the House, not only on this occasion but on others, too, of the scandalous investments and so on within the area of the Crown Agents is that the Crown Agents wanted the highest rate of return, and that usually in this system of ours the highest rate of return can involve investments within the murky and seamy side of life; and the net result was that, like a good many other people who got their fingers burned, they poured their money into property speculation and, indeed, into slum speculation?

Will my right hon Friend in future insist that investments are of a kind which will not leave her as a Minister to have to come to the House, as the previous Minister did, in order to try to explain away how these investments have been made?

Will my right hon Friend also see to it that the committee of inquiry will establish quite clearly how much money has been lost as a result of all these investments in these areas of secondary banking, with a particular reference to the amount of money that was lost as a result of the investment in the ill-fated Stonehouse venture? All these matters should be investigated by the committee of inquiry.

Mrs Winifred Ewing: On a point of order, Mr Speaker. Is it not the case that today at Question Time, when Scottish Questions were answered, questions which

were much shorter in duration than the one which we have just heard were interrupted by your good self as being too long? Can you explain why it is that the hon Member who has just asked a supplementary question seems to be allowed to ask as long a question as he likes?

Mr Speaker: I will try to make the position clear. At Question Time the object is to get as many Questions answered as possible. Long supplementary questions cut out other Members' supplementary questions and Questions. After statements, the considerations are not quite the same. It is a matter for my discretion, although I admit I do not often have to complain of excessive brevity on the part of the hon Member for Bolsover (Mr Skinner).

Perhaps the right hon Lady will now answer the hon Gentleman's question.

Mrs Hart: My hon Friend is right in pointing to the fact, which I outlined in my earlier statement in December, that it was the over-investment in property companies and secondary banking, in which there had been a considerable decline in the value of assets, which led to the immediate crisis of liquidity in the Crown Agents. I have given a positive directive that this is now to diminish, and the Crown Agents are now very sensibly withdrawing in a phased way—because it is correct to phase it—from both secondary banking and properties. Since October over £59 million has been withdrawn from property and secondary banking by the Crown Agents.

On the second point about London Capital, I think I made it clear a month or two ago that this is a matter for the commercial judgment of the Crown Agents and that they are acting entirely in accordance with their best and most prudent judgment in this matter. It is not strictly a matter in which I would regard it as proper for me to intervene.

Mr Stanbrook: Does not the experience of the Crown Agents confirm the folly of any Government or quasi-Government institution using its assets to operate in fields in which it has neither qualifications nor suitability?

Mrs Hart: What emerges clearly—and I hope we have now corrected the situation—is that if we have a valuable Government institution, which the Crown Agents is—it has the most tremendous ramifications and involvement and an excellent reputation for its procurement policies and all its other activities on behalf of many overseas investments and overseas public corporations—it is of the greatest importance that we have people who are best able to make the right kind of judgments in the operations in which they are involved. I think my own appointments since July have created a board with the expertise and judgment to enable these matters to be correctly administered from now on.

On 16 October 1975 the Minister for Overseas Development (Mr Reg Prentice) announced the Government's intention to publish a White Paper setting out their proposals for introducing legislation to incorporate the Crown Agents.

CROWN AGENTS

The Minister for Overseas Development (Mr Reg Prentice): With permission, I wish to make a further statement about the financial position of the Crown Agents and other matters relating to that organisation.

My predecessor announced in December 1974 that the Government had agreed to provide a recoverable grant of £85 million to the Crown Agents to cover the writing down of asset values in their 1974 accounts as then foreseen and to provide financial backing appropriate to their operations, and that standby facilities had also been arranged with the Bank of England.

I have now received the audited accounts for 1973 and 1974 and have placed copies in the Libraries of both Houses. The balance sheet as at 31 December 1974 shows that the Government grant of £85 million was not enough in the event to avoid a technical state of insolvency, with liabilities exceeding assets at that date by some £15 million. This was because a greater degree of writing down of asset values and provision for losses were found necessary for the period covered by the accounts.

I should emphasise that the Crown Agents have no immediate liquidity problems. They have still not needed to draw on the £85 million grant or on the standby facility. I am also reassured by the thorough and energetic action which has already been taken by the new Board of the Crown Agents, under its Chairman, Mr Cuckney, to clear up the problems of the past and lay the groundwork of a more soundly based future for the organisation. I should like to pay my own tribute to their efforts.

Nevertheless, without Government backing the Crown Agents would at present be in a difficult position, which could affect the confidence of depositors and others. I have therefore thought it desirable formally to reaffirm the assurance given by my predecessor in December 1974, that Her Majesty's Government stand behind the Crown Agents. Hon Members will find the terms of my assurance to the Chairman in his covering report on the 1974 accounts, and I emphasise now to the House that the Government wish to see the Crown Agents continue in being for the sake of the valuable services which they are able to render both to their many overseas principals in the developing world and to Her Majesty's Government in their relations with overseas countries.

Like my predecessor I am, however, concerned that the future activities of the Crown Agents, and their relations with Ministers, should be on a more closely defined basis. The Government have been giving much thought to the future status, structure and functions of the Crown Agents. We have decided that the right solution will be to introduce legislation which would confer independent legal personality on the Crown Agents by incorporating them, define their functions for the future and provide that specified powers of direction should rest with Ministers.

This would create a well understood relationship of a kind which exists between a number of bodies in the public sector and the Ministers responsible for them. It would clarify the responsibilities of the Government in exercising the broad oversight over the activities of the Crown Agents that has been shown to be desirable by all that has happened; while leaving it to the Board to run their own day-to-day affairs. It would not disturb the traditional relationship between them and their principals.

My predecessor told the House in April that she hoped to publish a White Paper during the present session giving the Government's thinking on these matters. I shall not quite be able to meet that target, but I hope to publish a

White Paper shortly to set out our present view of the provisions which will or may be required in the legislation to incorporate the Crown Agents.

Meanwhile, I should inform the House of a further complication arising from the past activities of the Crown Agents which will have to be dealt with separately and in advance of this legislation. I was informed in August by the Chairman that certain loans made by the Crown Agents either directly or through a nominee company might be challenged as unenforceable, on the grounds that the Crown Agents were neither licensed moneylenders under the terms of the Moneylenders Acts nor a bank for the purposes of those Acts. The Crown Agents are advised that if this matter were brought before the courts, they would have a good defence particularly on the basis that they and their staff are exempt from the operation of these Acts as Crown servants. However, if there were a challenge in the courts the matter might take a long time to resolve. Meanwhile the Crown Agents' financial position might be seriously worsened by the withholding of loan repayments and interest due, and in other ways.

This would increase the potential call on the Exchequer for financial support for the Crown Agents to a degree which we should find quite unacceptable in the circumstances. It would mean that a heavy additional liability would fall on the public purse, and that other creditors of those property and other companies to which the Crown Agents had made loans would be in a position to benefit by taking advantage of an uncertainty in the application of legislation. I think it is essential to put this anomalous situation right. The Government will therefore introduce a Bill, for consideration as early as possible in the next Session, to put the matter beyond doubt.

Mr Maudling: These are serious and disturbing figures, and no doubt at the appropriate time we shall wish to discuss how the Crown Agents, with their great traditions, got into this situation, but I imagine that we shall have to await the report of the Fay Committee, which will have all the facts before it.

The Crown Agents are a considerable asset to this country and provide very valuable services to their principals overseas. The Minister can therefore take it from me that we support him in his desire to give all the help he can to the new chairman and the new Board.

With regard to the legislation, will he take note that we shall look carefully at the actual proposals, bearing in mind that the main need of legislation at this stage is to ensure the confidence of the overseas principals in the Crown Agents?

Mr Prentice: I thank the right hon Member for his statement. He has reminded the House that the events of recent years, which have given rise to great concern, are being considered by Judge Fay and colleagues working with him. They will, I think, take a few more months to complete their work, but obviously then there will be an occasion for a wider discussion of what has happened in the past.

With regard to the future, I am very glad that the Opposition agree with us that the Crown Agents perform a very valuable service which should continue and that we should give them the appropriate support.

Mr David Steel: I, too, welcome the steps that the Minister has mentioned this afternoon. Will he confirm that, if this were a private company, it would be insolvent, and will he give an undertaking to the House that the inquiry

being made into its operations and finances will be made public and published to the House?

Mr Prentice: The answer to the latter point is, "Yes". I think the answer to the former point would also be, "Yes". It will not have escaped the attention of the House that a great many private enterprise companies—if "enterprise" is the appropriate word—got their fingers pretty severely burned in the property market, and in secondary banking and activities of that kind.

Mrs Hart: May I welcome very much my right hon Friend's statement, and particularly the policy that is to be pursued in terms of the future incorporation of the Crown Agents. I am quite certain that that is the right course to pursue.

May I also say that I very much hope that the Fay Committee of inquiry will go very deeply into the causes of the misadventures of the past, which were, as he said, largely concerned with adventures in the property and secondary banking sector.

May I also say to him that I totally share his own confidence in the future of the Crown Agents and in all the tremendous and very difficult work that the new Board and the new chairman have carried out since they were appointed a year ago.

Mr Prentice: I am grateful to my right hon Friend for the way in which she has put those points. I think that, in relation to this whole rather tangled story, a tribute should be paid to her, first, for the work she did from the Opposition Front Bench in probing into these matters and persistently questioning the Government of the day, and secondly, for the prompt action she took on assuming office, and particularly the directions she gave to the Crown Agents, which have provided a framework within which they are now working, and which they are fully implementing.

Mr Tapsell: Arising out of the last part of the right hon Gentleman's statement, will he give an assurance that the legislation, the introduction of which he is contemplating, will not be retrospective to the extent that it weakens the present legal position of one of the parties to the possible legal controversy to which he referred?

Mr Prentice: The House will be glad to know that we have in mind a very short Bill which will clarify the position about which there is some doubt. It will not alter the law as most people understand the law but will simply clarify it, so as to avoid the situation which I described in my original statement. If that were not done, there might be a period of uncertainty, which could be most damaging to the Crown Agents and conceivably to public funds.

Mr George Cunningham: Will the Minister accept that some of us have almost exhausted our capacity for surprise at the successive manifestations of incompetence which have been shown in running the Crown Agents, and that this shows how unwise it was for the House of Commons Select Committee on Overseas Development just over a year ago to terminate its investigation of the Crown Agents, which might have revealed this latest example of incompetence a bit sooner than it has been revealed?

Are we to understand that there will be two Bills, one the declaratory Bill on the point he has just mentioned and the other on the relationship of the Crown

Agents to Government and Parliament? If there are to be two Bills, will the second Bill be produced in the immediately forthcoming session as well as the first?

Secondly, may we be told what is the state of play on the papers which were referred to the Director of Public Prosecutions in respect of some of the staff, and how many of the staff of the Crown Agents have either been dismissed or are currently suspended pending investigations?

Mr Prentice: My hon Friend also played an active part in helping to draw attention to all the things that had gone wrong in the past, and I pay tribute to him for that. But I think he was wrong in saying that I had revealed some further example of incompetence. I have drawn attention to a legal doubt which has arisen and which might be damaging, unless it were corrected, to the finances of the Crown Agents.

I think that the story of recent months has been a success story. The Crown Agents are disengaging as fast as they prudently can from the wrong type of investment in which they were engaged in the past. Their current activities are succeeding, and their overseas principals, including 120 different governments and a number of other organisations, show continuing confidence in them.

As to my hon Friend's question whether there will be two Bills, I envisage a very short Bill on the narrow legal point that I mentioned. I also envisage a White Paper, very shortly, which will itself lead to further legislation, though not quite as quickly—probably not in the next session.

With regard to his point about the Director of Public Prosecutions, I have nothing to add to the reply that my hon Friend the Parliamentary Secretary gave in January. This matter is still with the Director of Public Prosecutions. It is taking a long time. It is not a matter over which I have any control.

I do not have a figure for the number of staff dismissed, but I will look into it and give my hon Friend any information that I can.

Mr Peter Rees: The Minister has made it clear that the financial position of the Crown Agents depends to a certain extent on the delicate question whether they acted as bankers or as moneylenders in certain transactions. However, he was somewhat ambiguous in his reply to my hon Friend the Member for Horncastle (Mr Tapsell). May we have an explicit assurance that the legislation which the right hon Gentleman contemplates will not retrospectively affect bodies and individuals, persons and partnerships who have been involved in transactions with the Crown Agents and who may even currently be in litigation with them? Some of those involved are themselves in financial difficulties. I understand that one company is in the hands of liquidators. It would be grossly unfair if these matters were clarified retrospectively in a sense unfavourable to those other parties.

Mr Prentice: I am sure that the House would consider it unfair if the Crown Agents were unable through a legal technicality to recover money owing to them. That is what we seek to clarify and to ensure by this short piece of legislation which I propose to introduce.

Mr Skinner: Is not the truth of this whole affair that a large sum of money was available for investment and was invested mainly in slum property empires,

just like the investments of many private companies, some of which have been referred to already? The fact is that the Crown Agents got their fingers burned as a result of those investments because of the escalation of property values and the subsequent falling-off in values. Are we to take it that this tiny group of people, who have squandered someone else's money and subsequently have had to use large amounts of the British taxpayers' money to try to remain solvent, apparently without success, will be dealt with in accordance with so-called British justice? Will my right hon Friend assure us that if there are to be bankruptcy proceedings against these people, as there ought to be, they will be dealt with in the same way as the 11 people at Clay Cross about whom my right hon Friend knows so much—having their cars and furniture taken away because they acted not in accordance with wanting to line their pockets and someone else's but in accordance with high moral principles?

Mr Prentice: There is a tremendous temptation to debate Clay Cross with my hon Friend but, unfortunately, that would be out of order. Perhaps we might continue that argument somewhere else. The events which we all deplore are under investigation by Judge Fay and two other distinguished people. I shall await their report, and that report will be made known to the House. Then we can debate these matters. I do not think that any of these proceedings are helped by the cheap smears which are typical of remarks by my hon Friend the Member for Bolsover (Mr Skinner).

Mr Costain: Is the Minister aware that the Public Accounts Committee endeavoured to look into these matters in past years but was prevented from doing so because the accounts were not audited by the Comptroller and Auditor-General? Will the new arrangements put the accounts under the authority of the Comptroller and Auditor-General so that the Public Accounts Committee may deal with these matters, or will they be matters for the nationalised industries' accounts?

Mr Prentice: The accounts which have been placed in the Library today have a commentary by the Comptroller and Auditor-General. Therefore they could be studied by the Public Accounts Committee if it saw fit.

Mr Lee: My right hon Friend has made a low-key statement, but is not this a profoundly unsatisfactory state of affairs? Will he reconsider the points made by my hon Friend the Member for Islington, South and Finsbury (Mr Cunningham)? Does not this call for a public inquiry under the Public Tribunals Act? Will my right hon Friend also say how much additional money will be required in the interim, since the subvention provided by his predecessor, as he said, clearly proved inadequate? Finally, may I congratulate my right hon Friend on the fact that his strident aversion to nationalisation is not wholly inflexible?

Mr Prentice: It is an unsatisfactory state of affairs, of course. My hon Friend described my statement as "low key". The simple reason is that it is a sequel to two statements to the House by my predecessor which dealt with the matter far more fundamentally. As to whether there should be a study by a tribunal, there is a study being carried out by Judge Fay helped by Sir Edmund Compton and an accountant, Mr Peter Godfrey—

Mr Lee: But it is not a public inquiry.

Mr Prentice: This is taking place in private. That was thought right, and it was not challenged in the House when it was first announced. But there will be a public statement about it in due course.

As for the amount of additional money that will be needed, the significant point is that the £85 million of standby facilities at the bank has not been used. What we are saying is that there will be continued Government backing. Whether the money will be used and to what extent it will be needed, we cannot foretell. That depends on many imponderable factors in the future. Certainly I shall keep the House informed of any significant developments.

Mr Michael Marshall: Although we welcome in general the proposal about the future state of the Crown Agents in their incorporated form, subject to any study of the White Paper, may I ask the right hon Gentleman to be more clear-cut about allowing freedom in day-to-day management and perhaps, in that context, stress what he omitted to say in his statement that, in addition to serving their overseas principals and the Government themselves, the Crown Agents are serving as a form of direct and invisible exports which are of value to the country? I hope that that side of their activities will be strengthened and encouraged in the future.

Mr Prentice: The operations of the Crown Agents are of great value to the country in many ways that we cannot measure, because their activities create opportunities which lead indirectly to further investment, exports and so on. The work which they do in training people overseas is of help and of indirect benefit to this country, too.

As for the details of the division of powers between the Minister and the Crown Agents when they are incorporated, I ask the hon Gentleman to await the White Paper. We are still considering that. But we envisage something broadly comparable with the relationship which exists already between many Ministers and the nationalised industries. I am sure that the House would not want a Minister in this House to answer for day-to-day decisions. One difficulty at the moment is that the situation is so unclear in the constitutional sense and needs clarification by new arrangements of this kind.

Mrs Hart: I am grateful, Mr Speaker, for being allowed to intervene a second time. Will my right hon Friend confirm to a number of my hon Friends, first, that the problem about holding a public inquiry, which was considered very carefully at the time, is that a great deal of the evidence which has to be given to the Fay Committee has to come from companies and banks, is highly confidential and would not have been forthcoming at a public inquiry? Will my right hon Friend assure them also that those against whom it is possible that charges might be made are under study by the Director of Public Prosecutions? Will he assure them, further, that although a great deal of Government money has been required to sustain confidence in the Crown Agents and to provide standby credits, it has not been spent or needed to be spent?

Mr Prentice: I think that I can give an affirmative answer to all three of my right hon Friend's questions. I made reference in my original statement certainly to her latter point about the money not having been drawn upon, and I am glad that my right hon Friend underlined that.

On 29 November 1976 the Minister for Overseas Development (Mr Reg Prentice), in reply to a question from Mr Frank Hooley, announced that token provision had been made in the Winter Supplementary Estimates to cover the liability on Her Majesty's Government arising from the technical insolvency of the Crown Agents.

CROWN AGENTS

Mr Hooley asked the Minister for Overseas Development what provision he has made for the contingent liability of public funds arising out of his assurances of support for the Crown Agents; and if he will make a statement.

Mr Prentice: Token provision has been made in the Winter Supplementary Estimates to cover the liability on Her Majesty's Government arising from the technical insolvency of the Crown Agents. My predecessor made a statement in the House on 18 December 1974 announcing the Government's support for the Crown Agents, and I reaffirmed this assurance of support on 16 October 1975. The Crown Agents have not so far needed to seek additional financial support from Her Majesty's Government, and the Supplementary Estimates provision is necessary now only as a formal indication of the continuing contingent liability. This overall liability takes account of certain contingent liabilities on the Crown Agents arising from contracts for the supply of British goods and services, including defence equipment, undertaken by one of their wholly-owned subsidiaries, Millbank Technical Services Limited, to which I have given my specific agreement.

On 3 May 1977 the Minister for Overseas Development (Mrs Judith Hart), in reply to a question from Mr Dennis Skinner, made the following announcement about the management of the Crown Agents' property investments in Australia.

OVERSEAS DEVELOPMENT

Crown Agents

Mr Skinner asked the Minister of Overseas Development if she will make a statement on the present position with regard to the Crown Agents' investment in Australian property.

Mrs Hart: My predecessors and I have discussed with the Crown Agents how my directive in 1975 that they should carry out an orderly phased withdrawal from the secondary banking and property fields should be applied to their investments in the Abbey Capital Property Group in Australia. It was clear that the Crown Agents could not be certain of implementing any strategy to this end as minority shareholders in the group, even though they had put up almost all the development finance. They were, therefore, authorised to negotiate with the other interests involved with a view to securing full control of the group. They have now succeeded in obtaining this at a reasonable cost. They have also been able to strengthen their management arrangements for the group, both in Australia and in London.

I have made it clear to the Crown Agents that I shall wish for continuing consultations about the strategy to be followed in conducting the affairs of the

group, which must take account of trends in the Australian market. I intend to review with the Crown Agents their policy for the group at regular intervals in the light of market trends, and have asked the Crown Agents for six-monthly reports.

Meanwhile, the Crown Agents have to meet or refinance certain existing obligations in Australia. For this purpose I have agreed that they should borrow up to US \$220 million from a consortium of United Kingdom banks, of which US \$210 million is to be used in Australia and US \$10 million for commitments elsewhere. An agreement to this end has been concluded with my approval. I would stress that this does not mean an expansion of the Crown Agents' interests in Australia, but is required solely to meet existing commitments.

ANNEX II

CROWN AGENTS: INVESTMENT AND LENDING POLICY

(Directive issued by the Minister of Overseas Development in February 1975)

References to the Crown Agents in this paper include their subsidiary companies.

2. The Crown Agents will make any investment of resources belonging to or under the control of their overseas Principals in respect of which they have explicit instructions from those Principals, to whom they will be answerable for those investments.

3. Where they are investing resources belonging to or under the control of their overseas Principals but are exercising their own discretion as to the investments made, or where they are offering advice as to investments to be made under 2 above, the Crown Agents, with a view to protecting their own good name and the position of Ministers from whom they hold their appointment, will take care to avoid transactions which might be likely to embarrass HMG.

4. In all their investment and lending operations in connection with their own account funds the Crown Agents will be guided by the best standards of banking prudence and the normal requirements of the Bank of England and by a similar regard for their own good name and for the position of Ministers. They will equally conduct their operations so as to avoid conflict with, or damage to, the interests of their overseas Principals.

5. In general the financial and banking operations of the Crown Agents are to be directed towards maintaining their reserves at a level suitably related to the overall requirements of their business and to the adequate capitalisation of their subsidiaries.

6. When lending money to other institutions or persons the Crown Agents will do their best, insofar as possible, to acquaint themselves with the full activities of the borrowers and the use to which such money is to be put and will seek to ensure that any loans which they make are employed in accordance with the general considerations in paragraph 4 of this paper.

7. The Crown Agents will not on their own account take a controlling interest in companies, other than those established as wholly-owned subsidiaries to deal with existing business already being undertaken, without prior discussion with the Minister. Any proposed investment of 10% or more in the equity of a quoted company will be subject to prior approval by the Minister.

8. The Crown Agents shall not engage directly in the property market, other than in respect of property for their own occupation or on the explicit instructions of an overseas Principal. Any extension of their own account activities into this field will be subject to prior approval by the Minister.

9. The Crown Agents will carry out an orderly phased withdrawal from the sphere of secondary banking activities.

10. In all transactions, whether on their own account or for Principals, the Crown Agents will, of course, be subject where relevant to the Exchange Control regulations of the Bank of England.

ANNEX III

Ministry of Overseas Development
Eland House
Stag Place
London SW1E 5DH
8 July 1977

J G Cuckney Esq
Crown Agents for Oversea Governments
and Administrations
4 Millbank
London SW1

On the instructions of the Minister, I am sending you the enclosed guidelines relating to consultation between the Crown Agents and this Ministry over the realisation of the Crown Agents' own-account investments. These should be read as supplementing the earlier Ministerial directive of 3 February 1975.

2. The guidelines have been discussed and agreed with your officials. While they reflect for the most part arrangements which have evolved during the process of consultation over the last two and a half years, they also provide a statement of the principles underlying current practice, and constitute a formal record of the arrangements which the Minister wishes you to follow in future.

3. The arrangements proposed in Sir Richard King's letter of 13 August 1975, and agreed in your reply of 15 August, would appropriately apply to communications made under these guidelines.

(D J Kirkness)

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GUIDELINES ON CONSULTATION BETWEEN CROWN AGENTS AND ODM OVER REALISATION OF INVESTMENTS

1. Following the Minister's directive to the Crown Agents in February 1975 that they should not engage directly in the property market and should conduct an orderly phased withdrawal from the sphere of secondary banking activities, the assets covered by this directive have been transferred to a separate Realisation Account. It will be the object of the Crown Agents, in consultation with their professional advisers, to dispose of all these assets as rapidly as they can. However, in each case attention will have to be paid to the desirability of securing the maximum financial advantage from such disposals, and also to the need to minimise the risk of further funds being lost, either through fresh commitments or through unreasonable delay in recovering existing investments.

2. It is recognised that the desiderata of early disengagement and maximum return may conflict and that a balance will need to be struck in individual cases between them. In accordance with his general obligation to keep the Minister informed of the development of the Crown Agents' business, the Chairman will make regular reports to the Minister about overall progress in realising the assets in the Realisation Account; and he will consult the Minister before taking a decision on the realisation of any major asset in the Realisation Account (for the purposes of this directive, major assets may be defined as those of which the original cost was more than £5 million) or in any case where special considerations of the kind outlined below apply, irrespective of the value of the investment. In this connection the Minister will need to be informed of, and examine with special care, cases where

- (i) the Crown Agents consider that the balance of advantage lies in rejecting a course of action which would appear to involve the least financial loss to them on the particular investment in question;
- (ii) the Crown Agents are for any reason proposing to increase their exposure on a particular investment;
- (iii) the Crown Agents are proposing to refuse an offer for any investment which is broadly in line with recent valuations or an offer which has the support of their professional advisers, or proposing, for reasons other than strictly commercial ones, to accept an offer which is considerably lower than recent valuations;
- (iv) the Crown Agents are proposing for any reason to make no active efforts for the time being to dispose of an asset;
- (v) there are wider political considerations to be taken into account.

3. The management of assets in Australia owned by the Abbey Capital Group will be in accordance with the overall policy of the Australian property assets agreed with the Ministry from time to time.

4. The requirement to consult the Minister in the cases defined above is not intended to rule out consultation in other cases where there is substantial uncertainty about the financial or other consequences of a proposed course of action.

PROGRESS MADE IN REALISING MAJOR ASSETS IN THE REALISATION ACCOUNT

NOTE: The order used in listing these assets follows that of the table at paragraph 373 of the Fay Committee Report.

English and Continental Group

The Crown Agents have bought out the interests of most of the shareholders, and now hold a majority interest, giving them control of the Group. They have been pursuing a policy of disposing, to the best possible advantage, of the major remaining assets, a policy directed towards producing the maximum possible recovery of Crown Agents' loans, and thereafter complete disengagement from the Group. The Crown Agents have already recovered a total of £5.8m (most of which comes from the successful sale of the English and Continental Homes site at Warmley, Avon). Despite these recoveries, however, losses on this investment, when they are finally known, are bound to be high—probably in the region of £35m.

Stern Group

On 13 August 1975 the Crown Agents entered into a Scheme of Arrangement with the other creditors of the Stern Group to enable them to recover as much as possible of their loans. Only two properties remain specifically charged to the Crown Agents, and these are expected to realise about £2m. In addition, claims have been submitted under the guarantees given by Mr and Mrs Stern as the formal step necessary prior to the institution of legal proceedings for the recovery of their personal debts. The Crown Agents expect to recover about £4m, out of total loans and investments of some £41m.

Australian Property Investments (Abbey Capital Property Group)

To enable them to choose for themselves the most advantageous possible strategy for their Australian property investments, the Crown Agents have secured control of the companies of the Group. They have strengthened the management, restructured the Board, undertaken a major reconstruction of the Group, and arranged a loan of up to US \$210m from a consortium of United Kingdom banks to enable them to meet existing commitments. As a result of these measures the Crown Agents are in a position to control the strategy of disengagement from their investments in Australian property in whichever manner is most advantageous to them, although as explained in para 23 of the White Paper such disengagement will take some considerable time.

Sterling Industrial Securities

This Company and its assets have now been sold for £2.36m. Total loans and investments by the Crown Agents in this Company amounted to £12.5m.

Big City Finance

Progress is being made in bringing court action by the liquidator and the Crown Agents (through the Attorney General) against the individuals involved. Total loans by the Crown Agents amounted to £1.75m.

CA Bank and Trust International

This Bank, wholly owned by the Crown Agents, has made substantial losses as a result of property loans. After making full provision of £0.62m against their equity investment, the Crown Agents have now sold this bank to a subsidiary of Charterhouse Japhet Limited. The basis of the transaction is that the Crown Agents restore the solvency of the Bank by taking over its bad loans and investments. An associate of the purchaser will attempt to realise these bad loans and investments, but the extent of the Crown Agents' recovery from these is highly uncertain. The provision already mentioned, and a further provision against restoring the solvency of the Bank amounting to £3.96m has been made and these provisions, at present rates of exchange, are expected to be fully adequate to meet the total exposure.

GCA Capital Corporation

The Company has been in voluntary liquidation since 24 December 1975. Liquidation has been substantially completed, although a number of legal questions remain outstanding. It is expected that the remaining claims by the liquidator will shortly be finalised, thus allowing the winding up of the Company. Full provision has been made against the whole cost of this investment, and associated loans, amounting to £6.3m.

Wallace Brothers and Co (Holdings) Limited

Although a £2m loan outstanding on 31 December 1976 was received in full with interest on the due date, full provision has had to be made against the Crown Agents' equity holding in this Company, at £3.3m. This holding was sold to the Standard and Chartered Bank for a nominal amount, but a deferred consideration may be payable in certain circumstances.

Caribbean Bank

The Crown Agents continue to own half the shares of the Group and are working with their fellow shareholders in difficult trading conditions to safeguard their own interest and those of the Bank's depositors.

Barclays Hotels

The inadequate nature of the charge originally taken on the security prevented the Crown Agents from realising the full ongoing value of the properties. Consequently, on the advice of their professional advisers, the Crown Agents sold their debts for £3m, with the net result of a realised loss of £6.5m.

Triumph Investment Trust and G T Whyte & Co Limited

These Companies are in liquidation and a receiver is acting for the debenture holder. It is estimated that a total of £3.8m may be recovered, out of total loans of £10m.

Burston Group Limited

The Crown Agents had lent £9m to this Group. Amounts continue to be received from the National Westminster Bank in respect of the Crown Agents' share of the proceeds of the receivership. £1.3m had been received by July 1977.

Orchard Square Development Corporation

The Crown Agents had disposed of all their interests in this Corporation by May 1976, making a total loss of £3.5m on an investment of £3.6m.

Casserly Hotels

The inadequate nature of the charge originally taken on the security prevented the Crown Agents from realising the full ongoing value of the properties. Consequently, on the advice of their professional advisers, the Crown Agents sold their debts for £2m, with the net result of a realised loss of £3m.

Murrayfield Securities Limited

The Crown Agents' security for their loan of £3m to this Company is a first charge on five properties and a second charge on one other. Two of the five properties have now been sold. It would appear from a valuation carried out in February 1977 that the balance of the debt, after provision of £2m to 31 December 1976, is exceeded by the value of the three remaining properties. Judgment has now been obtained against the guarantors of the loan, and the Chancery Registrar's department perfected judgment on 17 October 1977.

G S Gill Hotels Limited

The Crown Agents lent £2m to this Company, and have already made provisions of some £1m. As a result of the sale of the underlying security for this debt, the Crown Agents have become involved in litigation with one would-be purchaser of that security, and this litigation has not yet been concluded.

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