To Be Made Effective: Immediately

President's Bulletin

Bulletin No. 59

September 16, 1948

Policy of Capital Expenditure

This bulletin states a revised policy of capital expenditure effective at once. President's Bulletin 52 is canceled.

Allowable appropriations

Appropriations may be made for capital expenditures for the following purposes by the authorities stated in Systems 3717, pages 1-2:

1. To replace equipment or facilities that have worn out or failed and cannot be repaired at a reasonable cost. Replacements, when necessary, should provide for foreseeable future needs.

2. To protect the safety and health of employees and to protect property against loss.

3. To reduce cost or expense, subject to limitations hereinafter stated.

4. To obtain equipment necessary for the continuance of research projects of high priority.

Cost reduction projects

Appropriations for cost reduction are subject to the following limitations:

1. Projects may be approved by a plant manager only when the finance office manager reports in writing that the cost (including ample contingencies) will be recovered through cost reduction in not more than three years.

2. Projects may be approved by others only when a division comptroller or the Analysis Department reports in writing that the return on average investment (including ample contingencies) will be not less than 40% before income taxes.

3. The appropriation (or basis of financial appraisal) must include sufficient allowance for contingencies to assure no excess of actual expenditure.

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4. The aggregate amount of appropriations including contingencies will not exceed an amount of which each division will be informed.

Since the amount of funds available for this purpose will be limited, projects yielding the highest return should be sought and approved first.

Other urgent purposes

Proposal may be made to the President for appropriations for the following purposes, if of sufficient urgency:

1. To prevent impairment of the current level of production or sales. Since this purpose is ordinarily served by replacements or cost reduction projects, appropriations of this kind will obviously be out of the ordinary.

2. To correct sub-standard working conditions. Our policy in general is to provide good working conditions, but we have had to suspend improvements because of the present inflated cost of construction and equipment. Only the most urgent needs will be considered.

3. To equip employees with furniture and equipment that is recognized by the Company's standard practices as necessary for the performance of their jobs.

Expansion

The Company's policy continues to be not to expand its production facilities further until there is more light available regarding the future course of the currently highly inflated costs of construction and equipment.

Nothing herein, however, warrants relaxation in our plan to prepare a further program of such projects that will be ready for consideration when the situation is clarified. The present work should proceed vigorously.

R. W. Lea

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