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50 - The Queen's Speech on the Prorogation of Parliament. Note by the Lord President of the Council
10th January, 1966

CABINET

LOCAL GOVERNMENT FINANCE - ENGLAND AND WALES

Memorandum by the Minister of Housing and Local Government

In September the Cabinet approved (CC(65) 48th Conclusions, Minute 1) proposals for a new system of financial assistance to local authorities designed to keep the growth of rates broadly in line with the growth of the economy as measured by gross domestic product. Under this system an aggregate of Exchequer assistance would be determined for each year on the basis of estimates of expenditure; some of this would be distributed through grants in aid of particular services, and the remainder through a general grant in support of the rates.

2. Further work on the proposals, and discussions which have been held with representatives of local authorities, suggest that further consideration is needed on four main points.

Increase in grants

3. The precise relationship to be established between the growth of rates and the growth of gross domestic product (G.D.P.) was not determined; but the figures upon which C. (65) 126 was based pointed to increases in the aggregate of Exchequer assistance (Great Britain) of the order of £30 million in the first year, £60 million in the second, and so on. A direct link between growth of rates and growth of G.D.P. in fact seems impracticable: apart from the obvious difficulty of forecasting growth of G.D.P., we should, on a literal application of the principle, have to meet the full amount of any increase in costs due to changes in pay and prices. Further, the local authorities were worried by the uncertainty of what the application of the formula would mean in terms of money.

4. Officials have therefore considered how best to apply the principle in a way easier for the authorities to comprehend, and without undermining their financial responsibility and leaving the Exchequer with completely unlimited liabilities. We should achieve greater certainty in the amount of the Exchequer commitment in the next few years, and greater certainty for local authorities, if we undertook to make regular yearly increases over that period in the percentage of local government's net expenditure borne by grants. It appears that an annual increase of one in that percentage would result in grant increases of the right order, and could be justified in a broad way by reference to a comparison between the growth in local government expenditure and growth of G.D.P. over recent years.
Application of additional money

5. An increase in grant of the order of £30 million will seem a very small beginning in the light of the undertaking in the manifesto to "seek to give early relief to ratepayers by transferring a larger part of the burden of public expenditure from the local authorities to the Exchequer". It may be considered derisory against a current rate burden of about £1,250 m. and last year's increase of nearly £150 m. It would clearly have been desirable to have made a much more substantial transfer, but budgetary considerations seem likely to rule this out.

6. It is the pressure of rates on householders which is the sore point of the rating system, and there is in my view a good case for using the whole of the extra money for their relief. As domestic ratepayers bear roughly half the total rates, this would double the advantage to them. There are other claims on the extra money; but I think that we must devote at least £25 m. to the relief of the householder. While increases in rates are no doubt equally unpalatable to commerce and industry, they at least do not have to meet them out of taxed income.

7. The use of the extra money - or of most of it - in this way could be reconciled with the general principle of keeping the overall growth in rates in step with growth in G.D.P. We should simply be taking the opportunity afforded by the injection of the extra money to achieve a gradual, and fairly modest, redistribution of shares of the rate burden in favour of domestic ratepayers.

Education grant

8. At the earlier discussion the Cabinet agreed that there should be an education grant of 50 per cent of aggregate expenditure distributed by a formula. The Secretary of State for Education and Science and I think that we must reconsider this. When the Cabinet last discussed it we recognised that a 50 per cent grant would appear to be lower than the 60 per cent grant previously paid; but we thought that we could rely on the argument that this did not represent the whole of the Exchequer assistance to education. Subsequent discussions with the local authorities have, however, shown that it would be impossible to put this argument over successfully.

9. To retain a separate education grant and increase the amount to 60 per cent would require so much money that the education grant would have to take over some of the redistributive functions of the rate-support grant. We should then have, in effect, two general grants differing in little more than title. By contrast, as the local authorities have remarked, it is not in fact necessary to have a separate education grant in order to achieve the distribution of money which we desire.

10. The Secretary of State and I are therefore agreed that the better course would be not to have a separate education grant, but to include the appropriate factors in the distribution formula for the rate-support grant. It is true that in the manifesto we said that we would "restore the percentage grant and transfer the larger part of the cost of teachers' salaries from the rates to the Exchequer"; but our earlier decision had already accepted that we would not pursue that.
Highways

11. At present the Ministry of Transport pays grant in aid of the construction and major improvement of all classified roads: about six-sevenths of the grant goes on Class I roads, which are aided at 75 per cent. In addition, grants are paid in respect of the maintenance and minor improvement of classified roads, except in Inner London and the county boroughs.

12. The proposals discussed with the local authorities envisaged the discontinuance of all specific grant in respect of maintenance and of the construction and improvement of secondary roads; and the reduction from 75 per cent to 50 per cent of the grant for the construction and improvement of "main roads" (broadly, Class I roads). The specific grant so released would go to swell the rate-support grant.

13. The Minister of Transport and I have found the local authorities bitterly opposed to the reduction in grant for new work on main roads. No conceivable formula for distributing rate-support grant would compensate for the resulting substantial local changes in rate burden, especially in London, and we do not think that it would be right to force this change through against the unanimous opposition of the local authorities concerned. This need have no effect on the 50 per cent level proposed for the new capital grants in other services. There is a vital difference between reducing the level of an existing grant and sustaining the level proposed for a new grant.

14. The other changes proposed to the highways system remain essential for bringing the highways administration up-to-date. In particular we must limit capital grants to the new "main roads" and treat street lighting for traffic purposes as a highway function. We therefore seek the agreement of our colleagues to press ahead with these changes despite the lack of enthusiasm of the local authorities.

15. The local authorities might be persuaded to accept them if they could be assured that grant was being increased so that county boroughs and Inner London received assistance towards highways maintenance, through the operation of the distribution formula, without it being purely at the expense of what the county councils could expect to get. Either the county boroughs and the L.C.C. have never had assistance towards this expenditure; but it is agreed that we must now provide for this. A flat increase of about £5 m. would be necessary to ensure that this new provision is not made at the expense of the county councils. It would clearly be much more acceptable to the authorities if this were an ad hoc addition to the £30 m., and I hope that my colleagues will agree that this should be made.

Conclusion

16. I accordingly invite my colleagues:

(1) to agree to the proposed method of fixing the aggregate of Exchequer assistance, and to increases of the order of £30 m. in the first year and £30 m. in the second;
(2) to agree that all or most of the additional money should be applied specifically to the relief of domestic rates;

(3) to agree to give Exchequer aid to revenue expenditure on education through the rate-support grant instead of through a separate education grant;

(4) to agree to the inclusion of an additional, flat £5 m. in respect of maintenance of highways in county boroughs and Inner London; and to the retention of 75 per cent grant for construction and improvement of main roads, on the understanding that we press ahead with the other highway changes.

R. H. S. C.

Ministry of Housing and Local Government, S.W.1.

10th January, 1966
CABINET

LOCAL GOVERNMENT FINANCE

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

Under the proposals for the new system of financial help to local authorities which the Cabinet approved on 16th September (C.C. (65) 48th Conclusions, Minute 1), the new benefits to the local authorities and the extra charges on the Votes of Departments were:

(a) about £100 million net of extra capital grants at 50 per cent in the first year (1967-68), the amount rising steadily over the years; and

(b) about £30 million of extra revenue grants in the first year (1967-68), £60 million in the second, £90 million in the third and £120 million in the fourth (1970-71). This is the scale of transfer required to keep the growth of the rate burden in step with Gross National Product (GNP).

These benefits (and charges on the Exchequer) are additional to the rapid growth of the grants under the existing system. In 1967-68, the Exchequer will anyway be finding an increase of about £130 million and in 1970-71 of £630 million above 1966-67. These figures become £160 million for the 1967-68 increase and £750 million for the 1970-71 increase under the new scheme.

2. Of the proposals in paragraph 16 of C (66) 1, (2) and (3) are concerned with the distribution of benefit, and (1) and (4) with the total charge which the Exchequer is to accept. Taking (1) and (4) first, I agree that the aggregate of Exchequer assistance on the revenue side should increase by about £30 million in the first year and £60 million in the second. I also agree that the new grant should be expressed as a rising percentage of total approved expenditure, the precise percentages to be worked out by officials, taking account of the likely trend of price increases, so as to implement the addition of £20 million and £60 million. However, I cannot agree to the proposals in (4) on highways.
3. I would summarise the difficulties about a 75 per cent rate of capital grant for Class I or “main” roads as follows:

(i) The extra cost of capital grants in 1967-68 would become £130 million instead of £100 million with bigger differences in later years as the road programme grew.

(ii) Under the new scheme, neither 50 per cent nor 75 per cent for capital grant represents the real limit of Exchequer cost or local authority benefit in respect of investment. Whereas at present 75 per cent of cost is the full amount of the Exchequer charge for a Class I road (except for the minority of local authorities which get Rate Deficiency Grant), under the new scheme the loan charges representing the balance not covered by the capital grant will qualify for the Exchequer revenue grant at some figure between 50 per cent and 60 per cent. The total amount from the Exchequer with a 50 per cent capital grant will therefore be about 78 per cent and with a 75 per cent capital grant, would be about 89 per cent. 75 per cent capital grant for highways under the new system would therefore go far beyond what the Exchequer now contributes with the present 75 per cent grant. It is true that the individual local authority gets the extra money in a form which is not specially identified with highway expenditure, but that does not alter the fact that the Exchequer is having to find it. 89 per cent payment for the Exchequer in respect of highways expenditure goes, in my view, much too far.

(iii) 75 per cent for highways would carry a real risk of repercussion on the other 50 per cent capital grants under the new scheme. There are other services (e.g., teacher training colleges) which are no less “National” than roads and sooner or later there would be pressure for extension of the 75 per cent rate.

4. A capital grant of 75 per cent for roads cannot be considered in isolation, for it would fundamentally alter the capital grants side of the plan. The new capital grants and 50 per cent for highways were part of a package. A reversion to 75 per cent on highways upsets the balance: the capital grants become too costly and I doubt whether other services will be satisfied with less. If we decide to retain a 75 per cent grant for roads, the whole capital grants plan will need to be reconsidered.

5. I cannot agree to the suggested once-for-all addition of £5 million to the total Exchequer assistance in respect of highway maintenance in county boroughs. The total Exchequer contribution must be determined by the broad principle of bringing the growth of rates more nearly into line with growth of Gross Domestic Product (GDP), and by the percentage rate which is agreed to be needed to achieve this. This is really a question of the distribution,
within a total Rate Support Grant of well over £400 million, of the £30 million, £60 million, etc., of extra benefit which it is agreed the scheme should provide. There could be no objection to distributing £5 million of the £400 million by reference to highway factors if my colleagues are agreed on this; and the suggestion in paragraph 6 of C (66) 1 that a sum less than £30 million should be distributed to domestic ratepayers fits in with this.

Education

6. I think my colleagues will want to examine closely the arguments for getting rid of a separate education grant. All of us have argued in the past that a separate grant is essential for long-term planning in education and so far I am still of that view.

Domestic ratepayers

7. There is a great deal to be said for concentrating a large part of the extra benefit of the new scheme on the domestic ratepayer as a means of making a bigger impact on the domestic rate burden. Even so I must draw my colleagues' attention to certain dangers of this course:

(a) The principle underlying the scheme of keeping the growth of rates in line with the growth of incomes would be robbed of most of its meaning. Domestic rates would rise more slowly than GDP, industry's rates would grow faster than GDP. As a result, there would be no particular logic about the degree of domestic derating.

(b) Derating domestic ratepayers is equivalent to superrating industry. Such a policy of increasing costs to industry would look odd at a time when we were introducing investment grants, and would seem particularly strange in development districts. The Secretary of State for Scotland recently announced the continuance of industrial derating in Scotland. Industry would undoubtedly protest and might quote this new policy in arguments about price increases.

(c) Derating damages rates as a source of revenue. It is not long since industrial derating ended in England and Wales. We cannot afford to impair a tax which still yields £1,200 million until we have something to put in its place—and there is nothing in sight yet.

(d) Concentrating part of the £30 million on domestic ratepayers increases the net cost to the Exchequer, since industry is left with more rates qualifying for tax relief.

8. Therefore there are serious objections to embarking on a policy of domestic derating, with no particular principle to guide us in doing so.
Conclusions

9. (a) If it is now thought that the highways capital grant cannot be reduced to 50 per cent, we must reconsider the whole of the capital grants part of the scheme. And the £5 million in respect of highways maintenance in county boroughs should come out of the sum of £400 million for rate support.

(b) We should, in my view, retain a separate education grant.

(c) To lessen the risks in embarking on domestic derating we should find some principle to guide us for the future.

(d) The amendments which are proposed, both for capital grants and for current grants, are so fundamental that in effect they would constitute a new scheme, the implications of which need more consideration.

L. J. C.

Treasury Chambers, S.W.1.
CABINET

PRICES AND INCOMES POLICY

MEMORANDUM BY THE FIRST SECRETARY OF STATE AND SECRETARY OF STATE FOR ECONOMIC AFFAIRS AND THE MINISTER OF LABOUR

One of our first decisions on taking office was to develop, on a basis of voluntary co-operation, a long-term policy for prices and incomes. We saw this, from the economic point of view, as one of the essential elements in the achievement of the 25 per cent increase in national output by 1970, combined with a strong £ and a healthy balance of payments.

2. We also saw it as important from a social point of view. We cannot improve the lot of the lowest paid workers, pensioners, and others in similar positions unless we can secure reasonable stability in prices and incomes.

3. There is at present a good deal of defeatism about the policy. In the short space of a year we have in fact achieved much more than many critics expected. The institutional arrangements for reinforcing the policy are developing well. Compared with the fiasco of 1963 and 1964 when the general economic conditions were more favourable to the establishment of wage and price stability than they were in the last twelve months, 1965 has shown real progress. The National Board for Prices and Incomes (NBPI) is now firmly established and has already achieved a degree of acceptance and respect which was never experienced by its predecessor, the National Incomes Commission. It has produced seven reports and is now working on a series of major references which could have a substantial effect on the future handling of a wide range of claims involving fair comparison principles (e.g., railwaymen, Civil Service "M" Rate, higher Civil Service and Armed Forces). We must of course recognise that the handling of arguments about comparisons has always presented serious difficulties in previous attempts at an incomes policy. The
reports the Board have already issued, despite having to learn by
their own errors, have been taken seriously by both sides of industry
and have led to agreements by employers to defer price increases;
to changes in methods which should help to reduce the need for price
increases; and to the reconsideration of wage structures which were
becoming out of date. This, once started will gain momentum.

4. Against this we have the undoubted fact that up till now
the policy has been affecting the actual course of settlements and
wage earnings far too slowly. Of course our policy is essentially a
long-term one and we have rightly rejected the alternative possibility
of a short, sharp wage freeze which might have had dramatic results
for about six months, but which could not have been sustained beyond
that—and would have led to a major reaction against the whole
policy which would have been very damaging to our longer term
prospects.

5. We knew when we took this decision that there was already
considerable pressure on both prices and pay generated by the
developments of 1964. In particular, a general movement for a
two-hour reduction in the working week was well under way and has
had a major effect on the movement of hourly wage rates. When
this has worked through there should be a significant reduction in
the upward pressure of current negotiations on industrial costs. We
must be clear though that commitments for pay increases resulting
from long-term agreements will be exercising a considerable influence
on the course of wage movements in 1966, and are likely to result
in the average level of increases being much higher than we should
like. This simply will not be contained unless we agree to take a
much firmer line about new claims and commitments, recognising
what this means in practice.

6. When the economic situation in the autumn became very
bad we agreed that we should strengthen and intensify the policy.
In consequence we shall be introducing legislation to put the NBPI
on a statutory basis and to give the Government powers to require
advance notification of changes in prices; in pay and conditions; and
to impose a temporary standstill in appropriate cases whilst they are
being investigated by the NBPI with all the attendant penalties. And
we seem to be carrying the Trades Union Congress (TUC) and the
Confederation of British Industries (CBI) reluctantly with us.

7. These are important developments but we have now reached
the stage when we must achieve positive results on the incomes front
much more rapidly. Prices have been more stable in recent months
than might have been expected from the movement in wages and
other costs. It will not be possible to restrain prices much longer if
incomes continue to rise rapidly and charges in the public sector are
going up. For this reason it is essential that in the months ahead the
policy should have, and be seen to be having, a real impact on the
growth of incomes both in the private and public sectors. If we can
achieve this, the coming wage round could be significantly lower than
the last and the psychological advantage of success on this front
would be enormous. There is therefore a great deal at stake and a
great deal to be gained. The handling of particular cases during the
next three months is likely to be decisive.

8. We shall not, however, achieve the break-through which
is still possible unless we are prepared to take issue with
conventional attitudes to industrial negotiations. Perhaps the most
discouraging aspect of the present situation is the obvious
unwillingness of employers to take a firm line in applying to
claims for pay increases the criteria for considering them, which
were established with the agreement of representatives of both
sides of industry. The recent pressure to hold prices down should
now help to stiffen their resistance to pay claims but our experience
with the bakers demonstrated that at times it may be necessary for
the Government to intervene to persuade the unions to moderate
their claims and to encourage the employers to take a firm line,
even at the risk of seeming to precipitate industrial conflict.

9. This is in sharp contrast to the traditional role of the
Government in industrial relations. If, as in the past, the maintenance
of industrial peace were the overriding object it would be the duty
of the Minister of Labour to intervene in order to conciliate, even
in a case where a union was pressing with little justification a
claim which was well above the average level of $3\frac{1}{2}$ per cent and
threatening strike action if the employer did not give way. But,
clearly, we shall get nowhere with the prices and incomes policy
unless we are prepared to give priority to ensuring that settlements
reached are in conformity with the agreed prices and incomes policy.
This means taking a different attitude to (a) conciliation and
(b) arbitration.

Conciliation

10. The problem here is created by the potential conflict
between, on the one hand, the Government’s responsibility for
conciliation in industrial matters as a means of maintaining
industrial peace and, on the other, their responsibility for promoting
an effective prices and incomes policy as an essential condition for
achieving sound economic growth. In most cases a serious conflict
between these two objectives can doubtless be avoided, but where
it cannot we must ensure that the longer-term objectives are not,
as so often in the past, sacrificed under the immediate pressures.
This means that the prices and incomes policy must be given its
full weight by the Ministry of Labour in its conciliation duties and
that the Ministry will have the full support of the Government if
industrial action results as it very well may in individual cases.

11. There are two main types of pay dispute in which the
Ministry of Labour is asked to conciliate. The first is where the
employer is prepared to concede the union’s demands, but wants
the excuse that this has been done at the behest of the Ministry
of Labour. This kind of exercise is quite inconsistent with the
prices and incomes policy and must be avoided. All Ministry of
Labour conciliation officers are already under strict instructions not to put pressure on employers to make improved offers. But even so there is still scope for settlements to be reached under the auspices of the Ministry of Labour which are out of line with the policy. One possibility would be for the Government to announce that the Ministry of Labour reserved the right not to conciliate in particular cases in which it appeared that the outcome might be inconsistent with the agreed criteria for prices and incomes. But some such cases might still arise in which the Ministry felt unable to refuse to conciliate in practice.

12. In the second type of case the Ministry may be faced with a strike or threatened strike over a pay dispute. There may be occasions in which the employers are conscientiously trying to observe the agreed policy where the strike or threatened strike is effectively against the Government and the incomes policy. While we should try by conciliation or any other means to remove the circumstances in which threats of industrial action are made, we must ensure that the results are consistent with the prices and incomes policy and in the last resort we must be prepared to stand firm in the face of such threats. It was difficult enough to observe this policy in the recent test case of the bakers. But there may be other cases in which it will be even more difficult to be resolute because of the power of the workers concerned to disrupt an important sector of the economy.

13. It is essential that we should demonstrate in such cases that we do not consider that industrial peace is more important than the prices and incomes policy, which is a necessary element in our total economic policy. There can be little doubt that over recent years far more economic damage has resulted from failure by Governments to stand up to threats of industrial action than could have resulted from the action itself. It is the failure to stand up to strike threats which has led to the breakdown of all previous attempts to secure an incomes policy since the war. If we allow the present policy to break in an important case under the threat of industrial action, this will encourage other unions to make similar threats in order to achieve their claims. Employers will then believe that it is cheaper in the long run always to yield on pay and then to put up prices. The result is bound to be a grave loss of confidence, both at home and overseas, in the reality of the prices and incomes policy and our economic policies generally.

14. By our decision to stand firm in the bakers' case we have greatly strengthened our ability to weather the next crisis of this kind, wherever it may arise. We must ensure that we are equally determined and successful in handling the next claim backed by a threat of strike action or the next case where there is pressure to conciliate or to yield gracefully by appointing some body of enquiry other than the National Board. To achieve this the various Departments concerned will need to work in the closest co-operation. We must also ensure that, as in the bakers' case, the incomes policy is fully reinforced by the prices policy.
Arbitration

15. Arbitration is an important method of resolving disputes about pay and other matters without disturbance to industrial peace. Arbitrators are not under any formal obligation to take account of the national interest but tend to base their decisions solely on the arguments put forward by the two parties. They are likely to follow the prices and incomes policy in the longer term as the parties themselves come more to accept it for practical purposes. But in the immediate future it is becoming clear that arbitrators’ awards can be so out of line with the policy as seriously to undermine it.

16. It does not seem likely that this problem can be satisfactorily tackled by means of a statutory requirement that arbitrators take account of the national interest. A preferable course would be to reach agreement with the TUC and CBI to alter the conventions under which arbitrators operate by formally requesting them to take account of the agreed criteria laid down in Part I of the White Paper on Prices and Incomes Policy (Cmnd. 2639). It has not so far been considered opportune to try to reach agreement on this point. The main difficulty is that many of the public service staff associations, for whom arbitration is of particular importance, are not affiliated to the TUC and are likely to resent hotly any attempt to alter the terms of reference of arbitrators. Another difficulty is caused by the fact that not all arbitrators are appointed by the Minister of Labour.

17. A third possibility would be to refer a suitable arbitration award to the National Board for Prices and Incomes for examination. Both the TUC and the CBI have accepted in principle that arbitration awards should be susceptible to reference to the National Board. A report by the Board which made it clear that arbitrators should take account of the considerations in the White Paper could hardly be ignored by arbitrators. This would help considerably to secure a change in the general climate of opinion so that, without any formal request, arbitrators as well as the parties between whom they arbitrate come to accept it as natural that considerations of the national interest should play a part in the proceedings.

18. Meanwhile we are considering the possibility of reintroducing some form of compulsory arbitration. Shortly after we took office the TUC asked us to consider reintroducing something on the lines of the Industrial Disputes Tribunal which was abolished in 1958. Under the Industrial Disputes Order one party to a dispute was able to take the other to the Tribunal, whose award was binding. Provided that any future compulsory arbitration tribunal was required to have regard to the national interest, it could have a very useful part to play in relation to the prices and incomes policy particularly if the Government as well as one or other of the parties had power to refer cases to the tribunal.
Conclusion

19. There is no doubt that our prices and incomes policy is likely to be faced in the next few months with some major cases which could raise important issues of policy. We invite our colleagues to consider seriously the general approach set out in this paper, which we believe follows their earlier thinking. It will unquestionably require that prices and incomes policy should be given a higher priority and that certain outmoded attitudes should be discarded.

G. B.
R. J. G.

Department of Economic Affairs, S.W.1,
INVESTMENT INCENTIVES: WHITE PAPER

Memorandum by the President of the Board of Trade

A White Paper "Investment Incentives" (implementing the policy agreed by Ministers) is to be published at 3.30 p.m. on Monday, 17th January, 1966. It will be presented to Parliament by the First Secretary of State, the Chancellor of the Exchequer and myself. Since the proposals involve changes of a budgetary nature which come into effect on 17th January, and because of the possibility of forestalling, it is essential to preserve the strictest secrecy about the contents of the White Paper until 3.30 p.m. on Monday.

2. For the benefit of Ministers who have not been concerned with the preparation of the scheme, I attach a copy of the official Press release which summarises the principal features of the scheme and the reasons for its introduction. The Board of Trade are to be responsible for administering the new scheme of investment grants.

D. P. T. J.

Board of Trade, S.W.1.

14th January, 1966
Radical changes in the system of investment incentives for key sectors of the British economy are announced in a White Paper published today. Under the new system, which requires legislation, existing initial and investment allowances will be replaced by cash grants of 20% of the cost of plant and machinery in manufacturing and extractive industries, with a higher rate of grant of 40% in wider Development Areas, which will replace the existing development districts. These new arrangements are part of the Government's drive to speed up the modernisation of British industry.

2. The main way in which Governments have influenced investment in the past is by the use of initial and investment allowances. Initial allowances permit firms to write off part of the cost of their new machinery in the first year and so accelerate the annual "wear and tear" allowances. Investment allowances give tax relief over and above the full value of the asset and so are equivalent to a grant to those firms which pay enough tax to take advantage of them.

3. One important disadvantage of investment allowances is that it is difficult to translate them into an immediate cash benefit. Their value depends on the future profit position of the firm and future rates of taxation. And the extra benefit of investment allowances accrues only gradually as depreciation allowances are used up. Surveys have shown that many business men, at the time when they are deciding whether to make an investment, do not make proper allowances for the effect on their future tax bill of particular purchases of machinery. Cash payments will give more certainty. They will be given initially within about eighteen months (and ultimately six months) of the time when the firm pays for the plant and machinery. When the scheme is in full operation, therefore, the new grants will be received much sooner than investment allowances and from the outset they will be bound to influence investment decisions far more certainly than the existing system.

4. The scheme is deliberately intended to concentrate incentives on these sectors of the economy in which investment is most urgently needed. In the past an insufficient proportion of the nation's savings has been invested in manufacturing industry to achieve the necessary rate of economic growth. Increased investment and productivity in this sector of industry is also vital for the balance of payments. Other sectors which will benefit from the new arrangements have been selected because of the contribution that they make, either by helping exports or saving imports, to the balance of payments. The extractive industries and ships will be eligible for the new grants. Separate arrangements will be made for agriculture, and fishing vessels.

5. All investment allowances are discontinued with effect from midnight on Sunday, 16th January, 1966. Free depreciation in development districts is also discontinued from the same date.

6. Investment in new plant and machinery (apart from certain excluded items) in the manufacturing and extractive industries outside the Development Areas from today will be eligible for a cash grant of 20%. This will replace the present 30% investment allowance and the 10% initial allowance. Among the excluded items will be vehicles, office equipment, loose tools and other small items. The main activities of nationalised industries will also be excluded, but certain ancillary manufacturing activities will be eligible.
7. Special arrangements will apply to ships and computers. Ships will qualify for the 20% investment grant and the special arrangement of free depreciation for ships introduced last year will continue. A 20% grant will be available for computers used for all commercial and industrial purposes. The rate of grant for ships and computers will be 20% throughout Great Britain and will not be affected by the differential rate of grant for Development Areas.

8. The existing initial allowances for vehicles and aircraft, which will not qualify for investment grants, will be raised to 30%. For industries other than manufacturing and extraction, for the main activities of nationalised industries, and for any excluded items including those mentioned in paragraph 6, the initial allowance on plant and machinery will be increased from 10% to 30%. Industrial buildings will get a 15% initial allowance. These changes in tax allowances also take effect from midnight on 16th January, 1966.

9. The new grants will apply to payments made by firms on or after 17th January, 1966. The intention is that when the scheme is in full operation grants will be paid about six months after claims are made. To do this straightaway would impose too heavy a burden on the Exchequer, because of the outstanding cost of investment allowances arising from past investment. Initially the new grants will be paid about eighteen months after the expenditure by firms, but this period will be subsequently reduced. This will be done as the economic situation permits, bearing in mind that the acceleration of payments will involve additional cost to the Exchequer at that stage.

10. In the new Development Areas the rate of grant for plant and machinery in the manufacturing and extractive industries will be 40%, compared with the national rate of 20%. This will not apply to certain types of mobile equipment used in these industries nor to ships and computers, which will receive the national rate of grant, wherever located.

11. The development districts under the Local Employment Acts will be replaced by new and wider Development Areas. The changes are shown on the attached map. The Development Areas will cover the whole of Scotland, except the Edinburgh area, and the whole of Wales except parts along the north coast and around Cardiff. In England, the whole of the Northern Region and the Furness peninsula will be covered; in the North West, St. Helens and the Warral will be added to the existing development district of Merseyside; in the South West, almost the whole of Cornwall and North Devon will be a Development Area. Unlike the development districts, whose selection depends solely on the level of actual and prospective unemployment, the new development areas are chosen with reference to the Government's wider regional policies and take account of all relevant economic circumstances.

12. With effect from today, the new 40% grants will replace the 10% grants for plant and machinery which have been paid to firms in development districts under the Local Employment Acts since 1951, but will not be limited to projects providing employment. Free depreciation in development districts will be discontinued. The Board of Trade will continue to consider applications for grants of 10% under the Local Employment Acts which they have already received.

13. The other forms of assistance at present available under the Local Employment Acts will continue for projects providing employment and will apply to the new Development Areas after the necessary legislation has been passed. These are building grants at 25%, tailor-made loans and grants and the provision of Board of
Trade factories. The Board of Trade will have new powers to give additional assistance to firms setting up new units in Development Areas.

14. The Northern Ireland Government are making a separate announcement about improvements in the special schemes for grants to industry in Northern Ireland.

15. Legislation will be introduced in the current Session to give effect to all these proposals. The arrangements for submitting claims will be announced later in the year.
In accordance with the Cabinet's Conclusions on 4th November, 1965 [C. C. (65) 57th Conclusions, Minute 5], I have discussed the scope of the proposed legislation with the Trades Union Congress (T. U. C.) and Confederation of British Industries (C. B. I.) and a draft Bill has been prepared (copy attached).

2. As a result of discussions with the Law Officers, it has been possible to deal with the difficult issue of sanctions in a way which has taken much of the sting out of it for the T. U. C. Although the T. U. C. would clearly have preferred us not to proceed with this legislation, the General Council publicly reaffirmed on 22nd December the decision taken by Congress at Brighton on 2nd September last to accept the principle of legislation.

3. My discussions with the T. U. C. have been friendly and helpful and we have been able to meet their views on a number of points to which they have attached importance. For example, the Bill requires the Secretary of State to consult with representatives of employers and workpeople before the provisions of Part II are brought into force; the appointment of panels of special members for the Board is made mandatory; there is no standstill on wage negotiations even if a claim is referred to the Board; and the Bill will make it possible for a statutory system of notification and standstill to be applied to prices and charges, if that were judged desirable, independently of any action on pay and terms and conditions of employment.

4. We can properly claim that the Bill in no way impairs the rights of unions and the protection they enjoy under the Trade Disputes Acts. We are not open to any charge of having prejudged the report yet to come from the Royal Commission.
5. My discussions with the C. B. I. have not yet been carried as far as those with the T. U. C. The C. B. I. are inclined to be less co-operative and their criticisms of the scope of the Bill are intended chiefly to emphasise the inappropriateness - in their view - of legislation. But many of their criticisms relate effectively to the mechanics of a statutory system and the Bill deliberately does not attempt to define these closely in advance of bringing a statutory system into force. I hope to be able to meet the C. B. I. on some points, but we need not be afraid of their criticism of the Bill.

6. The draft of the Bill now circulated is still incomplete in certain respects but these do not relate to matters of basic principle. I will be bringing these other matters before the Ministerial Committee on Economic Development and I will continue my discussions with the T. U. C. and C. B. I. But it is necessary that we should reach agreement now that the principles as set out in the draft Bill properly reflect our previous discussions about the scope of the legislation. I firmly believe they do. The Bill in its present form is directly in line with the proposals which the Cabinet approved on 1st September last (C. C. (65) 46th Conclusions, Minute 1) and which were publicly announced on the following day.

7. I do not pretend that the Bill is going to be an easy proposition for us or that all our friends will be happy about it. But we are firmly committed - at home and abroad - to bring in this legislation early in the present session and failure to do so would do us serious harm as well as undermining the voluntary early warning system.

8. Subject to the Cabinet's broad agreement, and the detailed examination by the Ministerial Committee on Economic Development thereafter, I will arrange for the drafting of the Bill to be completed as quickly as possible, in further consultation with the T. U. C. and C. B. I., so that it may be introduced at the beginning of February.

G. B.

Department of Economic Affairs, S. W. 1.

14th January, 1966
ARRANGEMENT OF CLAUSES

PART I

THE NATIONAL BOARD FOR PRICES AND INCOMES

Clause
1. Constitution and proceedings of the Board.
2. References of questions to the Board.
3. Principles to be applied by the Board.
4. The Board's reports.

PART II

POWER TO ENFORCE STANDSTILLS

General
5. Power to bring Part II into force.

Prices and charges
6. Notice of intention to increase prices or charges.
7. Standstill for prices or charges referred to Board.
8. Prices and charges: supplemental provisions.
9. Comparison of prices and charges.
10. Prices and charges: enforcement.

Terms and conditions of employment
11. Notice of pay claims and other claims.
12. Notice of awards and settlements.
13. Standstill for other awards and settlements.
14. Terms and conditions of employment: enforcement.
15. Meaning of "trade dispute".

Supplemental
16. Reports on references to which Part II applies.
17. Orders made by Secretary of State.
18. Regulations about notices to Ministers.
19. Offences under Part II.

PART III

GENERAL
20. Interpretation.

41—3 A 43/2
Clause

22. Short title and commencement.

SCHEDULES:
Schedule 1—Incidental provisions with respect to the Board.
Schedule 2—General considerations relating to prices and incomes.
Establish a National Board for Prices and Incomes, and authorise the bringing into force of provisions requiring notice of increases of prices and charges and pay and other matters, and for enforcing a temporary standstill in prices or charges or terms and conditions of employment, and for connected purposes.

B E IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

5. PART I

THE NATIONAL BOARD FOR PRICES AND INCOMES

1.—(1) There shall be established a body, to be called the National Board for Prices and Incomes (in this Act referred to as “the Board”).

(2) Subject to subsection (6) below, the Board shall consist of not less than nine and not more than fifteen members appointed by the Secretary of State.

(3) The Secretary of State may appoint persons to the Board either as full-time members or as part-time members.

(4) Of the full-time members, the Secretary of State shall appoint one to be chairman of the Board and not more than four to be deputy chairmen.
(5) The Secretary of State shall, out of money provided by Parliament—

(a) pay to the members of the Board such remuneration, and such travelling or other allowances, as he may with the approval of the Treasury determine, and

(b) in the case of any member of the Board to whom he may, with the approval of the Treasury, determine that this paragraph applies, pay such pension, or make such payments towards the provision of a pension, to or in respect of the member as he and the Treasury may determine in the particular case;

and if a person ceases to be a member of the Board and it appears to the Secretary of State that there are special circumstances which make it right that that person should receive compensation, he may, with the approval of the Treasury, pay to that person out of money provided by Parliament a sum of such amount as he may with the approval of the Treasury determine.

(6) The Secretary of State may, by an order contained in a statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament—

(a) direct that the minimum or maximum number of members of the Board shall be a number greater or less than that specified in subsection (2) above;

(b) vary or revoke any previous order containing such a direction.

(7) The provisions of Schedule 1 to this Act shall have effect with respect to the Board, its members, officers and servants and proceedings.

References of questions to the Board.

2.—(1) The Secretary of State may refer to the Board any question relating to wages, salaries or other forms of incomes, or to prices or charges and, in particular, any question—

(a) relating to a proposal to increase any prices for the sale of goods or any charges for the performance of services, including charges for the application of any process to goods, or

(b) relating to any pay claims or other claims relating to terms and conditions of employment, or any awards and settlements relating to terms or conditions of employment.

(2) A question referred to the Board under subsection (1) above may be framed in any way whatsoever, and in particular may be concerned with a specified region or locality or with named undertakings or persons.
(3) The Secretary of State may at any time by a further reference to the Board vary or withdraw any question referred to the Board under subsection (1) above.

(4) The text of any reference under subsection (1) or subsection (3) above shall be published in the Gazette.

3.—(1) The Board shall examine and report to the Secretary of State on any question referred to them under section 2 above.

(2) In examining the question the Board shall, subject to the following provisions of this section, have regard to the considerations set out in Schedule 2 to this Act (which reproduces Part I of a statement presented to Parliament by the Secretary of State by Command of Her Majesty in April 1965).

(3) The Secretary of State may at any time by order set out considerations to which the Board are to have regard under this section whether in addition to, or by way of variation or limitation of, the considerations set out in Schedule 2 to this Act.

(4) Before making an order under subsection (3) above the Secretary of State shall consult such organisations or bodies as he thinks fit, being organisations or bodies which appear to him to represent to any substantial extent the interests of those particularly concerned with the order, and any order so made—

(a) may be varied or revoked by a subsequent order so made,

(b) shall be made by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

4.—(1) The Board shall make their report to the Secretary of State on any question referred to them under section 2 above within three months from the date on which the reference (meaning, if the original reference has been varied by a reference under section 2(3) above, the original reference) is published in the Gazette.

(2) Subject to the provisions of Part II of this Act, the Secretary of State may by a direction published in the Gazette extend or further extend the said period of three months by such further period as is specified in the direction.

(3) In framing their report the Board shall have regard to the need for excluding, so far as that is practicable, matter which relates to the private affairs of any person and the publication of which would or might in the opinion of the Board prejudicially affect the interests of that person.
(4) The receipt by the Secretary of State of the Board's report shall be notified in the Gazette and the Secretary of State shall lay the report before each House of Parliament.

(5) If it appears to the Secretary of State that the publication of any matter in the report would be against the interests of national security, he shall exclude that matter from the copy of the report laid before Parliament under subsection (4) above.

(6) For the purposes of the law relating to defamation absolute privilege shall attach to the Board's report.

**PART II**

**POWER TO ENFORCE STANDSTILLS**

**General**

5.—(1) Her Majesty may by Order in Council of which a draft has been laid before and approved by a resolution of each House of Parliament—

(a) bring the provisions of this Part of this Act into force for a period of twelve months beginning with the date specified in the Order,

(b) from time to time extend or further extend that period by a further period of twelve months,

and a Minister proposing to lay a draft of an Order in Council under this subsection before Parliament shall first consult with such organisations or bodies as he thinks fit, being organisations or bodies which appear to him to represent to any substantial extent the interests of those particularly concerned with the Order.

(2) The provisions which may be so brought into force may be all the following sections in this Part of this Act, or all of them except 6 to 10, or all of them except 11 to 15.

(3) If an Order in Council brings this Part of this Act into force without either of those groups of sections a further Order in Council under subsection (1) above may bring into force that group of sections (together with the other sections of this Part of this Act as they apply for the purposes of any of that group of sections) for the residue of the period for which the remainder of this Part of this Act is in force, or for a different period of twelve months which may be separately extended under subsection (1)(b) above.

(4) Without prejudice to the provisions of section 37 of the Interpretation Act 1889 (power to make subordinate legislation in advance of coming into force of an Act), any power of making orders under the following provisions of this Act
Part of this Act may be exercised before those provisions are brought into force on any occasion, but not so as to have any effect before they are so brought into force.

(5) Her Majesty may by Order in Council at any time revoke an Order in Council made under subsection (1) above.

(6) The lapse of provisions of this Part of this Act on the expiration of a period specified in an Order in Council under subsection (1) above, or on the revocation of such an Order in Council, shall not affect liability for any offence committed before the lapse, and shall be without prejudice to the further exercise of the powers conferred by subsection (1)(a) above.

Prices and charges

6.—(1) The Secretary of State may by order apply this section to any prices for the sale of goods and to any charges for the performance of services, including charges for the application of any process to goods.

(2) Prices or charges to which this section applies shall not be increased by any amount unless notice of intention to increase them by at least that amount has been duly given to the appropriate Minister.

(3) When notice of intention to increase prices or charges to which this section applies has been so given—

(a) those prices shall not be increased until after the expiration of a period of thirty days beginning with the date on which the notice of intention is given to the appropriate Minister, except that if at any earlier time the person giving that notice of intention receives written notice from the Secretary of State of his decision not to refer the notice of intention to the Board, this paragraph shall apply only until that earlier time,

(b) if the Secretary of State under section 2(1) or 2(3) of this Act refers the notice of intention to the Board by a reference published in the Gazette within the said period of thirty days, those prices or charges shall not without the written consent of the Secretary of State be increased until receipt of the Board’s report on the reference has been notified in the Gazette in accordance with section 4(4) of this Act.

Any written consent given by the Secretary of State under paragraph (b) above shall be notified in the Gazette.

(4) An order under subsection (1) above may frame a description of prices or charges to which this section applies in...
PART II

Standstill for prices or charges referred to Board.

any way, and in particular in framing a description of prices of goods of a specified class may make distinctions—

(a) by reference to the undertakings or persons selling the goods,

(b) by reference to the terms and conditions on which the goods are sold, the quantity sold or the undertakings or persons to whom they are sold,

(c) by reference to the undertakings or persons by whom the goods have been produced or dealt with, or the locality in which they have been produced,

(d) in making any of the distinctions above as regards undertakings or persons, may distinguish undertakings or persons by reference to the regions or localities where they carry on business or the scale or turnover of their business or by reference to any other circumstances, and may include or exclude named undertakings or named persons;

and comparable distinctions may be made in relation to charges for the performance of services.

7.—(1) If the Secretary of State under section 2(1) or 2(3) of this Act refers to the Board any question concerning prices for the sale of goods or charges for the performance of services, including charges for the application of any process to goods, he may by notice published in the issue of the Gazette in which notice of the reference is published direct that this section shall apply to such prices or charges as may be specified in the direction, being matters to which the reference relates.

(2) Prices or charges to which this section applies shall not be increased until receipt of the Board’s report on the reference has been notified in the Gazette in accordance with section 4(4) of this Act, except that if the Secretary of State by notice published in the Gazette at any earlier time revokes the direction under subsection (1) above in whole or in part this subsection shall only apply, or as the case may be shall only apply to matters affected by the partial revocation, until that earlier time.

8.—(1) An order under section 6 of this Act, and a direction under section 7 of this Act, shall contain such provisions for excluding prices and charges as appear to the Secretary of State practicable and appropriate for the purpose of ensuring that those sections do not impede export trade (that is to say the provision of goods and services for persons not resident in the United Kingdom).

(2) The said sections 6 and 7 shall not apply in relation to prices paid on any sale by auction.
(3) A transaction shall not be invalid because it involves a price or charge which contains a price increase forbidden by this Part of this Act but the person paying the price or charge shall be entitled to recover the amount representing that price increase unless he is a person who is himself liable to punishment by reason of his having aided, abetted, counselled or procured the offence committed under this Part of this Act by the other party to the transaction.

(4) The said sections 6 and 7 shall not apply in relation to a transaction effected in pursuance of a contract enforceable in law and concluded before the relevant price or charge was brought within section 6 of this Act by an order under that section or, as the case may be, before the direction was given under section 7 of this Act.

9.—(1) This section has effect for ascertaining for the purposes of this Part of this Act whether a price charged or quoted by any person represents an increase, and for ascertaining for those purposes the amount of the increase.

(2) The price shall be compared with those charged or quoted by that person in the course of business for comparable transactions as regards goods of the same description.

(3) If there are no prices which can fairly be taken for comparison under subsection (2) above the comparison may be with prices charged or quoted by that person in the course of business for transactions which are not in all respects comparable, and as regards goods which are not of precisely the same description, with a fair adjustment to take account of the differences.

(4) In this section references to a price quoted by a person are references to a price at which that person offers to sell goods, or at which he gives notice of intention to do business by any display, advertisement, circular or other public notice.

(5) All the provisions of this section shall apply in relation to the performance of services as they apply in relation to the sale of goods, and references to prices charged or quoted shall, in this section as so applied, be construed as references to charges made or quoted.

10.—(1) It shall be an offence for any person in the course of business—

(a) to sell, agree to sell or offer to sell any goods, or

(b) to perform, agree to perform or offer to perform any services,

if the price or charge for the goods or services represents an increase which is forbidden by the foregoing provisions of this Part of this Act.
PART II

(2) It shall be an offence for any person to give public notice of his intention to ask or make a price or charge which represents an increase which is forbidden by the foregoing provisions of this Part of this Act.

(3) For the purposes of this section an increase contained in a price or charge is one which is forbidden under the foregoing provisions of this Part of the Act—

(a) if the sale of the goods or the performance of the services is to be effected at a time when the increase is forbidden,

(b) in the case of an agreement or offer to sell goods or perform services, if the agreement or offer is made at a time when the increase is forbidden, and the terms of the offer or agreement do not preclude the sale of the goods or performance of the services being effected at a time when the increase is forbidden,

(c) in the case of a public notice of intention to ask or make a price or charge, if the public notice is given at a time when the increase is forbidden, and the terms of the notice do not expressly exclude a sale of goods or performance of services at a time when the increase is forbidden.

(4) It shall be a defence to proceedings under subsection (1) or subsection (2) of this section for the defendant to show that in a comparable transaction effected in the ordinary course of business at a time before prices or charges of the description comprising that to which the proceedings relate were brought within section 6 of this Act by an order under that section or, as the case may be, before a direction was given under section 7 of this Act, he asked or made a price or charge not less than that to which the proceedings relate; and subsections (3) and (5) of the last foregoing section shall apply for effecting a comparison under this subsection between transactions which are not in all respects comparable.

(5) A person guilty of an offence under this section shall be liable—

(a) on summary conviction to a fine not exceeding one hundred pounds, and

(b) on conviction on indictment to a fine which, if the offender is not a body corporate, shall not exceed five hundred pounds.

Terms and conditions of employment.

11.—(1) The Secretary of State may by order apply this section to any pay claims or other claims relating to terms and conditions of employment made on behalf of employees.
(2) Both the trade union or other person by whom the claim is presented, and the employers or employers’ organisation to whom the claim is presented, shall be responsible for ensuring that notice of its presentation, with particulars of the claim, is duly given to the appropriate Minister within a period of seven days beginning with the day on which the claim is presented; and a person who fails to comply with this subsection shall be liable on summary conviction to a fine not exceeding fifty pounds.

(3) The responsibility imposed by subsection (2) above may be discharged either by the person presenting the claim or the person or persons receiving it, and the responsibility so imposed on any number of employers may be discharged by any one of them, or by any employers’ organisation representing their interests; but without prejudice, where the notice is not duly given, to the criminal liability imposed by this section on all the persons made responsible by subsection (2) above.

(4) An order under subsection (1) above may frame the descriptions of claims to which this section applies in any way, and in particular—

(a) may apply this section in relation to employees in specified kinds of work, or in specified localities, or working in specified undertakings or for specified employers,

(b) in applying it in relation to employees working in specified undertakings or for specified employers, may make distinctions as regards those undertakings and persons by reference to the regions or localities where the undertakers or employers carry on business, or the number of employees working in the undertakings or for the employers, or by reference to any other different circumstances, and may be made so as to apply to named undertakings or persons,

(c) may make distinctions by reference to the subject matter of the claims, including in particular distinctions between claims relating to pay and claims relating to other terms and conditions of employment, or by reference to the amount of any increase in pay which is claimed.

(5) This section shall not apply in relation to a claim presented before the coming into force of the order bringing within this section claims of the description embracing that claim.

12.—(1) The Secretary of State may by order apply this Notice of award and settlements relating to terms or conditions of employment.
(2) Within fourteen days of the making of an award or settlement to which this section applies the employers affected by the award or settlement shall give notice, with particulars of the award or settlement, to the appropriate Minister; and an employer failing to comply with this subsection shall be liable on summary conviction to a fine not exceeding fifty pounds.

(3) The notice required by subsection (2) above may be given by a trade union or other person representing the employees affected by the award or settlement and, if so given within the period specified in that subsection, shall absolve the employers affected by the award or settlement from the responsibility imposed by that subsection; and notices to be given by any employers under subsection (2) above may be given on their behalf by any one of them, or by any employers' organisation representing their interests.

(4) The receipt by the appropriate Minister of a notice given under subsection (2) or subsection (3) above shall be notified in the Gazette.

(5) An award or settlement to which this section applies shall not be implemented unless the notice required by this section has been duly given to the appropriate Minister.

(6) When the notice required by this section has been so given—

(a) the award or settlement shall not be implemented until after the expiration of a period of thirty days beginning with the date on which receipt by the appropriate Minister of the notice is notified in the Gazette under subsection (4) above, except that if at any earlier time the Secretary of State publishes in the Gazette notice of his decision not to refer the award or settlement to the Board, this paragraph shall only apply until that earlier time,

(b) if the Secretary of State under section 2(1) or 2(3) of this Act refers the award or settlement to the Board by a reference published in the Gazette within the said period of thirty days, the award or settlement shall not without the written consent of the Secretary of State be implemented until receipt of the Board’s report on the reference has been notified in the Gazette in accordance with section 4(4) of this Act.

Any written consent given by the Secretary of State under paragraph (b) above shall be notified in the Gazette.

(7) An order under subsection (1) above may frame the descriptions of awards and settlements to which this section applies in any way, and in particular may contain provisions corresponding to those authorised, in framing descriptions of claims, by paragraphs (a), (b) and (c) of section 11(4) of this Act.
(8) This section shall not apply in relation to an award or settlement made before the coming into force of the order bringing within this section awards or settlements of the description embracing that award or settlement.

5 13.—(1) If the Secretary of State under section 2(1) or 2(3) of this Act refers to the Board any award or settlement relating to terms and conditions of employment, he may by notice published in the issue of the Gazette in which notice of the reference is published, direct that this section shall apply to the award or settlement.

(2) An award or settlement to which this section applies shall not be implemented until receipt of the Board’s report on the reference has been notified in the Gazette in accordance with section 4(4) of this Act, except that if the Secretary of State by notice published in the Gazette at any earlier time revokes the direction under subsection (1) above in whole or in part this subsection shall only apply, or as the case may be shall only apply in relation to the matters affected by the partial revocation, until that earlier time.

(3) This section shall not apply in relation to an employer who first implements the award or settlement before the publication in the Gazette of the direction under subsection (1) above.

14.—(1) It shall be an offence for an employer to implement an award or settlement in respect of employment at a time when the implementation of the award or settlement is forbidden under the foregoing provisions of this Part of this Act.

(2) Subsection (1) above shall not make it unlawful for an employer, at a time when the implementation of an award or settlement is not forbidden by the foregoing provisions of this Part of this Act, to pay or agree to pay, any sum in respect of remuneration for employment at an earlier time.

(3) A person guilty of an offence under subsection (1) of this section shall be liable—

(a) on summary conviction to a fine not exceeding one hundred pounds, and

(b) on conviction on indictment to a fine which, if the offender is not a body corporate, shall not exceed five hundred pounds.

(4) If any person takes, or threatens to take, any action, and in particular any action by way of taking part, or persuading others to take part, in a strike, with a view to compel, induce or influence any employer to contravene subsection (1) above, he shall be liable—

(a) on summary conviction to a fine not exceeding one hundred pounds, and
PART II

(b) on conviction on indictment to a fine which, except where the offender is a body corporate, shall not exceed five hundred pounds.

This subsection is without prejudice to liability for counselling or procuring, or aiding or abetting, the commission of an offence under subsection (1) above.

(5) Where an offence under subsection (4) above committed by a trade union is proved to have been committed with the consent or connivance of any officer of the trade union, or any person who was purporting to act as an officer of the trade union, he as well as the trade union shall be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

(6) This section shall not extend criminal or tortious liability for conspiracy nor any other liability in tort.

(7) In Scotland subsection (6) above shall not apply, but a person shall not be entitled to reparation under the law of Scotland in respect of any act or omission or any threat to procure an act or omission by reason only of the fact that the act or omission constitutes an offence under this section; nor shall a person be liable to procure under the law of Scotland by reason only of the fact that he has agreed, or attempted to procure an agreement, with another for the commission of an offence under this section.

Meaning of "trade dispute", 1906 c. 47.

15. The expression "trade dispute" as defined by section 5(3) of the Trade Disputes Act 1906 shall include any dispute between employers and workmen, or between workmen and workmen, which arises out of the restrictions imposed by this Part of this Act, and "dispute" shall include any difference of opinion as to the manner in which account is to be taken of the provisions of this Part of this Act.

Supplemental

16.—(1) This section has effect as respects a report of the Board in relation to which section 6(3)(b), section 7, section 12(6)(b) or section 13 of this Act applies.

(2) The time limit for the report shall not be extended under section 4(2) of this Act, and—

(a) if receipt of the report is not notified in accordance with section 4(4) of this Act within three months from publication of the reference, the said provisions of this Act shall apply as if receipt of the report had been so notified at the end of that period.
(b) the said provisions of this Act shall apply in relation to a report notwithstanding that it is expressed to be an interim report or to deal with part only of the questions referred to the Board,

and if the reference has been varied under section 2(3) of this Act, “reference” in paragraph (a) above shall mean the original reference.

17.—(1) An order made by the Secretary of State under this Part of this Act—

(a) may be varied or revoked by a subsequent order so made,

(b) shall be contained in a statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

15. (2) The variation or revocation of an order made under this section shall not affect any criminal liability incurred before the variation or revocation takes effect.

18. The Secretary of State may by regulations in a statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament—

(a) prescribe the form of any notice to be given to a Minister under this Part of this Act, the manner in which any such notice is to be given and the evidence which is to be sufficient evidence of its having been given,

(b) prescribe the particulars to be contained in any such notice,

(c) authorise a notice to be given by any persons to be given on their behalf by such organisation, body or person as may be prescribed by the regulations, and

(d) define “the appropriate Minister” for the purposes of any such notice,

and regulations under this section may make different provision for different cases.

19.—(1) Proceedings for an offence under this Part of this Act shall not be instituted in England or Wales except by or with the consent of the Attorney General, and shall not be instituted in Northern Ireland except by or with the consent of the Attorney General for Northern Ireland.

(2) Where an offence under his Part of this Act committed by a body corporate is proved to have been committed with the consent or connivance of, or to be attributable to any neglect on the part of, any director, manager, secretary or other similar
PART II

officer of the body corporate or any person who was purporting to act in any such capacity, he as well as the body corporate shall be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

In this section "director", in relation to a body corporate established by or under any enactment (including an enactment of the Parliament of Northern Ireland) for the purpose of carrying on under national ownership any industry or undertaking or part of an industry or undertaking, being a body corporate whose affairs are managed by its members, means a member of that body corporate.

PART III

GENERAL

Interpretation.

20.—(1) In this Act, unless the context otherwise requires:

"appropriate Minister" shall be construed in accordance with regulations made under section 18 of this Act;

"awards and settlements", in relation to terms or conditions of employment includes any agreement, whether or not enforceable in law and whether or not concluded under recognised arrangements for the settlement by negotiations of terms and conditions of employment, to which any employer or any organisation representing employers is a party.

"employee" means an individual who has entered into or works under a contract with an employer, whether the contract be for manual labour, clerical work or otherwise, be expressed or implied, either orally or in writing and whether it be a contract of service or of apprenticeship; and cognate expressions shall be construed accordingly;

"goods" includes ships and aircraft, minerals, substances and animals (including fish);

"Minister" has the same meaning as "Minister of the Crown" in the Ministers of the Crown (Transfer of Functions) Act 1946;

"price" includes a charge of any description;

"public notice" includes any notice given by any member of a trade association;

"trade association" means any body of persons (whether incorporated or not) which is formed for the purpose of furthering the trade interests of its members or of the persons represented by its members.
(2) This Act shall apply in relation to—

(a) a conditional credit-sale agreement, and

(b) a hire-purchase agreement,
as if the agreement were a sale of the goods to which the agree-
ment relates for an amount equal to the total purchase price
or hire-purchase price with a fair reduction where the considera-
tion for receipt of that price includes the installation, main-
tenance or repair of the goods or the performance of other
services apart from the giving of credit.

This subsection shall be construed, except as it applies in
Scotland, in accordance with the Hire-Purchase Act 1965 and, 1965 c. 66.
as it applies in Scotland, in accordance with the Hire-Purchase 1965 c. 67.
(Scotland) Act 1965.

(3) In this Act "Gazette" means, in relation to a matter
relating exclusively to England and Wales, or exclusively to
Scotland, or exclusively to Northern Ireland, the London
Gazette, the Edinburgh Gazette and the Belfast Gazette respec-
tively, similarly for matters to be published or notified in any
two of those Gazettes, and, subject to that, all three of those
Gazettes; and, where anything is under this Act to be published
or notified in more than one of those Gazettes, and is so pub-
lished or notified on different dates, references in this Act to
the date on which it is published or notified in the Gazette are
references to the earlier or earliest of those dates.

It is hereby declared that this Act extends to Northern
Application
Ireland, but the Parliament of Northern Ireland shall have
the same power to pass Acts with respect to any matter as
they would have had if this Act had not passed and, in the
event of any inconsistency between any Act of the Parliament
of Northern Ireland duly passed after the passing of this Act
and any provision of this Act, the Act of the Parliament of
Northern Ireland shall, in Northern Ireland, prevail.

(1) This Act may be cited as the Prices and Incomes Short title and
Act 1966.

(2) This Act shall come into force at the expiration of a
period of one month beginning on the day on which it is
passed.
Section 1.

Incidental Provisions with Respect to the Board

1. The Board shall be a body corporate with perpetual succession and a common seal.

Tenure of office, etc., of members

2.—(1) Subject to the following provisions of this paragraph, a member of the Board shall hold and vacate office as such in accordance with the terms of his appointment.

(2) A person shall not be appointed to the Board for a term exceeding five years, but previous membership thereof shall not affect eligibility for re-appointment.

(3) The Secretary of State may, with the consent of the member concerned, vary the terms of appointment of any member of the Board so as to provide for him to serve as a full-time member instead of as a part-time member or, as the case may be, as a part-time member instead of as a full-time member.

(4) A member of the Board may at any time resign his membership by notice in writing addressed to the Secretary of State.

(5) The Secretary of State may, by notice in writing addressed to the member in question, terminate the appointment of any member of the Board who is, in his opinion, unfit to continue in office or incapable of performing his duties as a member.

Tenure of office of chairman and deputies

3.—(1) Subject to the following provisions of this paragraph, the chairman and any deputy chairman of the Board shall hold and vacate office as such in accordance with the terms of his appointment.

(2) The chairman or a deputy chairman of the Board may at any time resign his office as such by notice in writing addressed to the Secretary of State.

(3) If the chairman or a deputy chairman of the Board ceases to be a member, or a full-time member, of the Board, he shall also cease to be chairman or, as the case may be, a deputy chairman.

Application of House of Commons Disqualification Act

4. In Part II of Schedule 1 to the House of Commons Disqualification Act 1957 (bodies of which all members are disqualified under that Act), there shall (at the appropriate place in alphabetical order) be inserted the following entry:

"The National Board for Prices and Incomes";

and the like amendment shall be made in the Part substituted for the said Part II by Schedule 3 to that Act in its application to the Senate and House of Commons of Northern Ireland.
5. The Board shall have a secretary, to be appointed by them after consultation with the Secretary of State, and may, after consultation with the Secretary of State and with the consent of the Treasury, appoint such other officers and servants as they think fit.

6. The Board shall pay to their officers and servants such remuneration, and such travelling and other allowances, as the Secretary of State may with the approval of the Treasury determine.

General provisions with respect to the Board’s proceedings

7. The validity of any proceedings of the Board shall not be affected by any vacancy among the members of the Board, or by any defect in the appointment of any such member.

8. Subject to paragraph 15 below, the Board may determine their own procedure, including the quorum necessary for meetings of the Board, and the extent, if any, to which their proceedings are to be held in public.

Exercise of chairman’s functions during absence, incapacity etc.

9.—(1) At any time when the chairman of the Board is absent or otherwise incapable of acting, or there is a vacancy in the office of chairman—

(a) such one of the Board’s deputy chairmen as the Secretary of State may direct or, in default of any such direction, such one of them as they may agree, or

(b) if there is then only one deputy chairman of the Board, the deputy chairman,

may exercise any of the functions of chairman of the Board.

(2) At any time when every person who is chairman or deputy chairman of the Board is absent or otherwise incapable of acting, or there is no such person, such member of the Board as the Secretary of State may direct or, in default of any such direction, such member of the Board as the Board may agree may exercise any of the functions of chairman of the Board.

Remission of questions for preliminary examination by groups of members and persons specially appointed

10. A question referred to the Board shall, if the chairman so directs, be examined in the first instance by a group of persons consisting of—

(a) not less than three members of the Board nominated by him, and

(b) such other persons, if any, as he may think fit to nominate for the purpose, being persons drawn in equal numbers from the panels maintained by the Secretary of State pursuant to paragraph 11 below;

and in any such case, the Board, in formulating their report on the reference, shall take into consideration, but shall not be bound to accept, any findings or recommendations of the group.
11.—(1) For the purposes of paragraph 10 above, the Secretary of State shall draw up, and from time to time revise, two panels, one of persons appearing to him to have special knowledge or experience of matters concerning employers, and the other of persons appearing to him to have special knowledge or experience of matters concerning employees.

(2) In the exercise of his functions under the foregoing sub-paragraph, the Secretary of State shall consult with such organisations as he may consider appropriate, being organisations which appear to him to be representative of employers or, as the case may be, employees.

(3) The Board shall pay to persons whose names are included in either of the said panels such travelling and other allowances as the Secretary of State may with the approval of the Treasury determine.

12.—(1) The chairman of the Board shall nominate as chairman of any group constituted for the purposes of paragraph 10 above one of the members of the group who are also members of the Board.

(2) Where during the proceedings of any such group any member thereof ceases to be a member of the Board, or the name of any such member is removed from either of the said panels, he shall cease to be a member of the group, and the chairman of the Board shall appoint in his place another member of the Board or, as the case may be, another person drawn from the panel in question.

(3) Where during the proceedings of any such group the chairman of the Board is satisfied that any member of the group will be unable for a substantial period to perform his duties as such, he may if he thinks fit appoint in the place of that member another member of the Board or, as the case may be, another person drawn from the panel from which that member was drawn.

(4) Subject to paragraph 15 below, and to any specific or general directions which may from time to time be given by the Board, any such group may determine their own procedure, including the quorum necessary for meetings of the group, and the extent, if any, to which their proceedings are to be held in public.

Inquiries

13.—(1) The Board, and any group constituted under paragraph 10 above, may hold such inquiries as they consider necessary or desirable for the discharge of their functions under this Act; and the chairman of the Board or, as the case may be, group, or other member of the Board presiding in his stead, may at any such inquiry direct that any person appearing as a witness be examined on oath, and shall have power to administer oaths accordingly.

(2) For the purposes of the law relating to defamation absolute privilege shall attach to the evidence given by any person appearing as a witness at any inquiry under this Act.
14.—(1) For the purposes of any such inquiry, the chairman of the Board or, as the case may be, group, or any other member of the Board authorised by the chairman of the Board (whether generally or in connection with the particular inquiry) to exercise the powers conferred by this sub-paragraph, may by notice in writing—

(a) require any person to attend and give evidence at a time and place specified in the notice; or

(b) require any person to produce, at a time and place specified in the notice, any documents specified or described therein, being documents which are in his custody or under his control and relate to any matter in question at the inquiry; or

(c) require any person carrying on any trade or business, or any trade union or trade association or officer of a trade union or trade association, to furnish to the Board or group such estimates, returns or other information as may be specified or described in the notice, and specify the time, the manner and the form in which any such estimates, returns or information are to be furnished.

(2) Any person who refuses or, without reasonable excuse, fails to do anything duly required of him by a notice under the foregoing sub-paragraph, or wilfully alters, suppresses or destroys any document which he has been required to produce by such a notice, or, in furnishing any estimate, return or other information required of him under such a notice, makes any statement which he knows to be false in a material particular, or recklessly makes any statement which is false in a material particular, shall be guilty of an offence, and liable on summary conviction to a fine not exceeding one hundred pounds.

(3) Proceedings for an offence under the last foregoing sub-paragraph may (without prejudice to any jurisdiction exercisable apart from this sub-paragraph) be taken against a body corporate at any place at which the body has a place of business, against a trade union or trade association at the place at which it has its head office, and against any other person at any place at which he is for the time being.

(4) Nothing in this paragraph shall be taken to require any person who has acted as counsel or solicitor for any person to disclose any privileged communication made to him in that capacity.

(5) The Board may pay to persons attending under this paragraph to give evidence such travelling and other allowances, and such other sums in respect of their expenses, as the Secretary of State may with the approval of the Treasury determine.

Power of Secretary of State to give procedural directions

15. In determining any of the matters specified in paragraph 8 or 12(4) above, the Board or, as the case may be, any group constituted under paragraph 10 above shall act in accordance with any general directions which may from time to time be given with respect thereto by the Secretary of State.
Disclosure of information

16.—(1) Subject to the following sub-paragraph, no information given or supplied by any person in connection with the examination of any question under this Act shall be disclosed except—

(a) with that person’s consent, or

(b) to members of the Board and, so far as they are not members of the Board, of any group by whom the question is examined pursuant to paragraph 10 above, or

(c) to the Board’s officers and servants, or

(d) to the Secretary of State, or an officer or servant appointed by, or person exercising functions on behalf of, the Secretary of State, or

(e) for the purpose of any legal proceedings or a report of any legal proceedings.

(2) The foregoing sub-paragraph does not apply to information given or supplied in any proceedings to which the public are admitted, or contained in any report of the Board as laid before Parliament pursuant to section 4(4) of this Act.

(3) Any person who discloses any information in contravention of sub-paragraph (1) above shall be liable on summary conviction to a fine not exceeding one hundred pounds or to imprisonment for a term not exceeding three months or both, or on conviction on indictment to a fine or to imprisonment for a term not exceeding two years or both.

Expenses of the Board

17. The expenses incurred by the Board under paragraph 6, 11(3) or 14(5) above and, to such amount as the Secretary of State may with the approval of the Treasury determine, any other expenses of the Board shall be paid out of money provided by Parliament.

Section 3.

SCHEDULE 2

GENERAL CONSIDERATIONS RELATING TO PRICES AND INCOMES

In the Joint Statement of Intent on Productivity, Prices and Incomes, representatives of the T.U.C. and the employers’ organisations have accepted that major objectives of national policy must be:

to ensure that British industry is dynamic and that its prices are competitive;

to raise productivity and efficiency so that real national output can increase, and to keep increases in wages, salaries and other forms of incomes in line with this increase;

to keep the general level of prices stable.

2. They have also agreed with the Government’s proposals, set out in the White Paper on Machinery of Prices and Incomes Policy (Cmdn. 2577) that:

(i) the National Economic Development Council should keep under review the general movement of prices and of money incomes of all kinds; and
(ii) a National Board for Prices and Incomes should be set up to examine particular cases in order to advise whether or not the behaviour of prices or of wages, salaries or other money incomes is in the national interest as defined by the Government after consultation with Management and Unions.

**Trends in national productivity**

3. The figure for the growth of the economy between 1964 and 1970 which is being assumed in the preparation of the Government's plan for economic development is 25 per cent. This gives an average annual rate of growth of rather less than 4 per cent. In calculating the long-term annual rate of growth of national production per head of the working population allowance has to be made for the growth of the total national output due to increases in the numbers of the working population and for short-term variations in the rate of growth which result from fluctuations in the level of demand and the level of employment. The most recent forecasts indicate that between 1964 and 1970 the labour force may grow, as the result of the natural increase in the population of working age and the continuance of rising trends in the proportions working or seeking work, by no more than 1 \( \frac{1}{4} \) per cent. over the whole period. Some further increase in the numbers employed should result from the more vigorous regional policies to which the Government is committed.

4. These assumptions imply an average annual rate of growth in output per head of something approaching 3 \( \frac{1}{4} \) per cent. During the early years of the plan period the underlying rate of growth will inevitably be below the average for the period as a whole; in addition the rate of increase may be slowed down by reductions in working hours and extension of holidays. By comparison the underlying rate of growth per head in the nineteen-fifties averaged about 2 per cent. a year. It is now probably about 3 per cent.

**Considerations of the national interest**

5. Against this background the Government have now drawn up, after consultation with Management and Unions, a statement of considerations which should be taken into account if the pricing policy of individual enterprises and increases in money incomes are to conform to the national interest and in particular to achieve the objectives accepted by Management and Unions in the Joint Statement of Intent on Productivity, Prices and Incomes. These considerations are outlined below. They will help all those concerned with determining prices and incomes to act in a manner consistent with the national interest. They are also intended to guide the National Board for Prices and Incomes in its examination of particular cases.

**Considerations affecting prices**

6. The development of an effective policy for keeping the general level of prices stable will call for considerable efforts on the part of management generally to increase efficiency, avoid cost increases and wherever possible to stabilise or reduce prices. The rate of
change of the average level of prices over any period of time is
determined by differing movements of a very large number of
individual prices. Even when the average level of prices is rising,
there are many prices which fall. It would be impossible to lay
down detailed rules which would cover all the circumstances which
individual enterprises face when deciding the prices to ask for their
products. On the other hand, unless some general guidance is
given on the circumstances in which it might be appropriate to
raise or reduce prices, there will be no basis for deciding whether
individual price decisions are consistent with the national objectives.
The considerations set out in paragraphs 9-10 are for the guidance
of all concerned with the determination of prices.

7. It is not intended that the considerations set out in para­
graphs 9-10 should inhibit the structural changes that will be
necessary in the interests of faster economic growth. These take 15
account of the fact that competition has an important part to play
in stimulating economic expansion, and are consistent with the smooth
working of a competitive system. It should be a normal part of
enterprising business behaviour to increase efficiency, keep down costs
and hold prices at a level compatible with its long-term growth. This 20
would speed up the replacement of old techniques and out-of-date
equipment by new techniques and modern equipment. Moreover,
the considerations recognise not only that an enterprise must make
sufficient profit to secure the capital necessary to meet home and
overseas demand, but also that the vigorous and efficient enterprise 25
can reasonably expect a higher level of profit than one that is not.

8. These considerations apply equally to the prices of goods and
of services whether provided by private or public enterprise. The
Government regard the nationalised industries as being under the
same obligations as private enterprises to contribute to the general 30
objective of price stability, while taking account of their financial
and social obligations.

Criteria for price behaviour

9. To keep the general level of prices stable, it is vital that price
increases should be avoided where possible and that prices should 35
be reduced wherever circumstances permit. Enterprises will not be
expected to raise their prices except in the following circumstances:

(i) if output per employee cannot be increased sufficiently to
allow wages and salaries to increase at a rate consistent
with the criteria for incomes stated in paragraph 15 below 40
without some increase in prices, and no offsetting reduc­
tions can be made in non-labour costs per unit of output
or in the return sought on investment;

(ii) if there are unavoidable increases in non-labour costs such
as materials, fuel, services or marketing costs per unit of 45
output which cannot be offset by reductions in labour or
capital costs per unit of output or in the return sought
on investment;

(iii) if there are unavoidable increases in capital costs per unit
of output which cannot be offset by reductions in non- 50
capital costs per unit of output or in the return sought
on investment;
(iv) if, after every effort has been made to reduce costs, the enterprise is unable to secure the capital required to meet home and overseas demand.

10. Enterprises will be expected to reduce their prices in the following circumstances:

(i) if output per employee is increasing faster than the rate of increase in wages and salaries which is consistent with the criteria for incomes stated in paragraph 15 below, and there are no offsetting and unavoidable increases in non-labour costs per unit of output;

(ii) if the costs of materials, fuel or services per unit of output are falling and there are no offsetting and unavoidable increases in labour or capital costs per unit of output;

(iii) if capital costs per unit of output are falling and there are no offsetting and unavoidable increases in non-capital costs per unit of output;

(iv) if profits are based on excessive market power.

Considerations affecting incomes policy

11. The development of an effective policy for keeping increases in money incomes in line with increases in real national output will call for considerable efforts on the part of unions and management and all others concerned with the determination of incomes. The object must be to increase productivity and efficiency as rapidly as possible in order to raise real incomes and to avoid, wherever possible, increases in money incomes that push up costs and prices. An important step will be to lay down a “norm” indicating the average rate of annual increase of money incomes per head which is consistent with stability in the general level of prices. In present circumstances the appropriate figure for this purpose is 3-3½ per cent. This would be subject to re-examination by the Government in the light of reviews to be conducted from time to time by the National Economic Development Council.

Employment incomes

12. Wages and salaries are determined by many factors, including changes in the supply and demand for different kinds of labour, trends in productivity and profits, comparisons with levels or trends of incomes in other employments and changes in the cost of living. The weight given to these different factors varies with circumstances. They are also influenced by the policies which the Government pursue in relation to the distribution of incomes. The Government in the Joint Statement of Intent on Productivity, Prices and Incomes have affirmed that their social objective is to ensure that the benefits of faster growth are distributed in a way that satisfies the claims of social need and justice. It is in that context that the following considerations are set out for the guidance of all those concerned with the determination of wages and salaries.

13. If wages and salaries per head are to keep in step with the long-term rate of increase in national productivity, less weight than
hitherto will have to be given to the factors mentioned in para­

Sch. 2

graph 12 and more weight will have to be given to the incomes norm. Moreover, in applying the norm to wages and salaries, it will be necessary to take into account not only increases in wage and salary rates, but also increases in costs resulting from reductions in working hours without loss of pay, from higher rates of pay for overtime or shift work and from improvements in fringe benefits.

14. It would be impracticable and undesirable to lay down detailed rules so as to provide an indication of what changes in wages and salaries were warranted case by case. Nor would it be desirable to inhibit the structural changes necessary in the interests of faster growth. However, experience has shown that in conditions of full employment the normal processes of collective bargaining both at national and local level can result in pay increases which are inflationary in effect. It is accordingly important to ensure that increases in wages and salaries above the norm should be confined to cases in which exceptional treatment can be shown to be required in the national interest. These exceptional increases should be kept to a minimum, bearing in mind that they will need to be balanced by lower than average increases to other groups if the increase in wages and salaries over the economy as a whole is to be kept within the norm.

15. Exceptional pay increases should be confined to the following circumstances:

(i) where the employees concerned, for example by accepting more exacting work or a major change in working practices, make a direct contribution towards increasing productivity in the particular firm or industry. Even in such cases some of the benefit should accrue to the community as a whole in the form of lower prices;

(ii) where it is essential in the national interest to secure a change in the distribution of manpower (or to prevent a change which would otherwise take place) and a pay increase would be both necessary and effective for this purpose;

(iii) where there is general recognition that existing wage and salary levels are too low to maintain a reasonable standard of living;

(iv) where there is widespread recognition that the pay of a certain group of workers has fallen seriously out of line with the level of remuneration for similar work and needs in the national interest to be improved.

Other incomes

16. Some types of incomes, for example those of farmers and landlords, are to a considerable extent determined by Government policy. The Government will, in accordance with its general objective of price stability, have regard to the fact that increases in incomes of this type have an effect on the prices of goods and services. The income of nationalised industries, local authorities, etc. accrues directly to the community, but this does not mean that...
the prices charged by such undertakings should not be susceptible
to the general considerations outlined above. The incomes of self-
employed persons are an important category of personal incomes.
They differ from those of employees in some respects, and allowance
must be made for these differences. Nevertheless, those who are
responsible for determining or are capable of influencing the incomes
of self-employed persons should be guided by the considerations
relating to the settlement of incomes and, where appropriate, to the
criteria for price behaviour. Increases in these incomes may there-
fore be referred to the National Board. The other main category
of non-employment incomes is profits, a part of which is distributed
in the form of personal income to shareholders. An effective policy
for avoiding price increases and securing price reductions wherever
possible should ensure that increases in profits arise from increased
efficiency. Where the growth of profits or dividends is based on
excessive market power this could indicate scope for price reductions
and such cases would be referred to the National Board for Prices
and Incomes for examination.

General considerations

17. The requirement that total money incomes should rise in line
with the growth of real national output does not mean that all forms
of income should increase at the same rate. It is necessary not only
to create the conditions in which essential structural readjustments
can be carried out smoothly but also to promote social justice. The
general review of money incomes of all kinds to be carried out by
the National Economic Development Council will involve not only
the assembly of the facts about the movement of the main categories
of income—wages, salaries, income from self-employment, profits
(distributed and undistributed) and rent—but also an appraisal of
the way the distribution of the national income is developing under
the impact of the prices and incomes policy. The Government have
pledged themselves to use their fiscal powers or other appropriate
means to correct any excessive growth in aggregate profits as com-
pared with the growth of total wages and salaries, after allowing for
short-term fluctuations.
To establish a National Board for Prices and Incomes, and authorise the bringing into force of provisions requiring notice of increases of prices and charges and pay and other matters, and for enforcing a temporary standstill in prices or charges or terms and conditions of employment, and for connected purposes.

XXII—B(3)

14th January 1966
21st January, 1966

CABINET

LOCAL GOVERNMENT: ORGANISATION AND FUNCTIONS

NEED FOR A RADICAL REVIEW

Memorandum by the Minister of Housing and Local Government

I think the time has come for a radical inquiry into the functions and organisation of local government in England. This would mean a Royal Commission. The question whether we should appoint such a Commission immediately would need consideration; timing is discussed in paragraphs 20 to 27 below. But we need to take a decision now.

Inadequacy of the present local government pattern

2. There are three main reasons, inter-related, why the present local government pattern is inadequate:

(i) There is no proper relationship between the size of local authorities and their modern functions; for a number of important functions the area of the responsible authority needs to be substantially larger than is generally envisaged at present.

(ii) The basis of the existing pattern - established at the end of the nineteenth century - is a division between town and country, and for some functions this is unsatisfactory. We need to think in terms of what some people call "city regions"; not regions as big as those now used for central government purposes (including the economic planning councils) but regions in the sense of wide areas sometimes, though not necessarily, centred on a big town.

(iii) The division between town and country results in a running fight between the town and the country authorities, the former trying to extend their boundaries, while the latter resist encroachment. This is all too apt to mean that the local government services are subordinated to the boundary fight.

3. Size. Under the Local Government Act, 1958, a population of 100,000 was assumed as warranting county borough status; but this is far too small for education; for planning, roads and traffic; for main shopping, recreation and entertainment; for the police, fire, ambulance and main drainage services. All these must be organised on a big scale if we are to get the maximum efficiency. Meanwhile out of 78 county boroughs in England, there will, after the forthcoming re-organisation in the Black Country (which will slightly reduce the number of smaller ones) be 31 with a population even less than 100,000.
4. Several of the counties are also too small for efficiency. Under present arrangements it is possible to amalgamate counties; and this has been done in the case of Huntingdonshire and Peterborough (population 175,000), and Cambridgeshire and Ely (population 288,000). But local pressure groups are powerful, and Rutland (population 25,000) has survived. Moreover, the counties nearly always plan their services in defence against the big towns, instead of in co-operation with them; since they are dominated by fear of the encroachment of the towns on their areas and rateable values.

5. Below the counties we have a mass of county districts, many of them very small indeed. The county councils are required to review their districts, and can increase their size (reducing their numbers) by amalgamations. That process is just beginning. But the county councils will be wary of creating large districts. Quite apart from the fact that they will never allow a county district to get near the county borough figure if they can help it, there is a level of population (generally 60,000) at which the county district councils can claim to exercise some county council functions themselves - and the county councils will try to avoid letting their districts reach this figure. In any event, whatever happens on the county reviews, the district councils must always be too small for some functions - e.g. those entailing large scale building and civil engineering, such as housebuilding and sewerage.

6. As a result of these inherent defects in the system genuine local government is being steadily eroded by the creation of ad hoc authorities to carry out some of the major services. The First Secretary has set up regional economic planning councils, nominated by central government, to advise on regional planning policies. Their appointment has underlined the inadequacy of local government to handle the broader planning issues. The Home Secretary is establishing joint boards as police authorities, where county boroughs and county councils are too small to have an effective force of their own; or where more effective policing of the area as a whole will come from an amalgamation. The Minister of Transport and I may be driven to do the same thing for planning and transportation. The Minister of Education has been obliged, because of the inadequacy of local education authority areas, to establish Regional Advisory Councils which, with varying degrees of effectiveness, attempt to co-ordinate the provision of technical education. In the housing field I struggle to establish "consortia" of local authorities capable of placing big contracts.

7. I do not suggest that fewer and much larger local authorities is the simple answer. The relation of size to function in local government is important; but equally important is the way to resolve the conflict between local democracy and efficiency. Participation by the public in local government may demand, for some purposes, a smaller scale organisation than would result from consideration solely of efficiency. Also there are some services which may be best carried out by smaller local authorities. At this the Royal Commission would have to consider.
8. Town and country. For the planning of land use, for roads and transportation, and for various kinds of major development - the housing of overflow population from the towns, development of industrial estates, main shopping, recreation and entertainment - we need really big local government areas, embracing, so far as practicable, both town and country. The present local government system, based as it is (outside the big towns and the conurbations) on relatively small units, cannot begin to grapple with these problems. Worse than that, it is designed to put every obstacle in the way of their solution. For each local authority strives to be self-contained - and to the extent that it cannot be, to enlarge its boundaries at the expense of its neighbours. The town councils naturally, though not always rightly, try to provide for the growing population by boundary extension; the county councils resist this strenuously, wherever it means that a non county borough might reach the magic figure of 100,000. The green belt - a most valuable conception in preventing the further sprawl of towns already big enough or too big for comfort - is used by county councils to restrain urban growth quite indiscriminately. Meanwhile the county councils cannot easily be persuaded to plan for new towns of more than 100,000 population, since under the present system this will mean that, having spent money on building up such towns, they must in due course lose them, and all their rateable value. Faced by this situation the County Councils Association have asked that the population figure used to warrant county borough status should be raised to 175,000; but this, while it would reduce for the time being the threats to the counties, would not cure the basic trouble.

9. In the sphere of transportation, the inappropriateness of the division between town and country led the Crowther Committee (which was set up by the previous Government to consider the Buchanan Report) to recommend the appointment by the Government of regional development agencies to oversee the whole programme of modernisation in the "urban regions", taking in with the towns the whole of their surrounding catchment areas. The then Government rejected that recommendation because it could not be reconciled with the system of local government. But it was none the less valid within its own context.

10. This need to plan the towns together with the surrounding countryside is now so urgent that I am arranging for a number of sub-regional plans to be prepared by ad hoc methods; but this process is an unsatisfactory substitute for proper local planning machinery. Meanwhile the Association of Municipal Corporations are trying to get the co-operation of the County Councils Association in promoting joint action in planning between county borough and county councils. They have been moved to this by the threat to local government which they see in the regional economic planning councils. But even if one could get it, such joint action between authorities which, by their nature, have opposing interests, is bound to be ineffective.

11. One of the problems in considering the pattern of local government is that not all services require areas of the same size, or necessarily of the same kind. For some, the present division between town and country may be appropriate, provided that the units are big enough. Nor is it possible to find a standard pattern which will fit the different parts of England with their very different patterns of
town and country. But it seems to me that the one principle on which we can all agree is that we want to sustain a system of local democracy under which local authorities, singly or in properly related groups, can be responsible for the whole range of services which ought to be provided by elected bodies at some level below the national. The Royal Commission would have to consider, first which services ought to be national and which local; second, how the local services could best be provided for within a coherent system of elected authorities; and finally how the principles so worked out could be applied in the different parts of the country. Unless this is done, representative government will increasingly go either the way that hospitals, gas and electricity have already gone - i.e. into the hands of non-elected bodies; or into the hands of indirectly elected joint bodies set up for particular purposes. Local government will cease to have any real significance.

Finance

12. If we could carry out a thorough re-organisation of local government, setting up very much larger areas for some of the modern functions, it might be possible to find a source or sources of local finance spread over those larger areas, which would enable us to dispense with - or at the least to supplement - the rating system. (This would not, of course, be remitted to the Royal Commission).

As a property tax, rates are a regressive form of taxation, bearing most heavily on those with least capacity to pay; and while I am seeking to moderate their impact on the domestic ratepayer in various ways, rates can never be a satisfactory exclusive source of income, apart from Exchequer grants, for financing local services. At present in order to keep local government going we have to keep on increasing the Exchequer grants. This alone has the most damaging effect in sapping the independence of local authorities.

The present re-organisation exercise

13. The re-organisation of local government which is taking place at present is inadequate to meet the needs. It was initiated by the Local Government Act of 1958, following consultation between the then Minister and the associations of local authorities - the purpose of which was to elicit the maximum measure of agreement among them about how the existing pattern of local government could be made to match the spread of population. The growth of population was not then foreseen; nor was the need for regional planning. A population of 100,000 seemed then large enough to support all local government functions, except in the conurbations where the huge concentrations of population called for a different sort of approach.

14. In the country at large this re-organisation means no more than enlarging the county boroughs to take in their overflow population; creating new ones where non county boroughs have reached or are within sight of 100,000; reducing smaller county boroughs to non county boroughs (though in no case has this yet been done); amalgamating small counties; amalgamating small districts. All of this is resisted every step of the way by all the authorities who stand to lose territory or their identities in the process.
15. In the conurbations, a more thoroughgoing exercise was authorised. Here the functions of local authorities can be re-arranged as well as the areas. In the result, 19 assorted local authorities in the Black Country are to be re-organised into 5 county boroughs; and I have announced my intention to create a single county borough on Tyneside (population 890,000). (Although it is not a conurbation I have also announced intention to create a single county borough on Tees-side, population 380,000). The Local Government Commission have just announced their draft proposals for re-organising local government in the Manchester and Merseyside conurbations. In the Manchester conurbation these would reduce 60 local authorities to one urban county council and 9 large second tier authorities (on the Greater London pattern). On Merseyside the existing local government pattern would be retained but simplified by reducing the number of smaller authorities; and it is proposed that a joint planning board should be established.

16. These conurbation re-organisations can result in a much simplified local government pattern, and in big authorities for some services. But even they do not produce a pattern which gives as wide an area as one would wish for planning and transportation, or cures the division between town and country.

17. Meanwhile the procedure governing this re-organisation is appallingly protracted. First the Local Government Commission examine the present system, area by area, and produce draft proposals. They then discuss these proposals with every local authority and produce final proposals. These are sent to me and my Inspector must hear the objections at interminable (and very costly) public inquiries - at which every local authority repeats, thorough Counsel, their objections to being amalgamated with others, or to losing territory to others, which they have already put at length to the Commission. Finally I arrive at a decision and later make an order which, in more drastic cases, requires an affirmative resolution in both Houses - and before I can reach that stage the objecting authorities (and most of them object) may challenge the order in the Courts. Nothing has discredited local government more than these long drawn out and very expensive battles by individual authorities to stay as they are.

Reactions to proposal for a radical review

18. I floated the idea that it might be right to embark on a radical review of local government at the annual conference of the Association of Municipal Corporations in September. The speech was received with surprising acclaim; and since then many people, both inside and outside local government, have told me that they absolutely agree with the idea. Many of the most thoughtful people in local government are deeply depressed by its present condition; which they see as becoming increasingly ineffective, steadily diminishing in independence and in public respect, progressively failing to attract councillors of adequate quality.
19. There is even some welcome for the proposal for a radical review among the associations of local authorities, though the Municipal Corporations would like to see the present exercise - from which their members are gaining - completed first. The County Councils on the other hand are eager to see the present exercise halted - their members are losing. But all the associations are greatly disturbed by the development of ad hoc authorities to which I have referred above.

Timing; and future of current re-organisation exercise

20. If we agree that a radical review of the functions and organisation of local government is needed, we have to consider whether we should launch this now, or seek to complete some if not all of the still outstanding work under the 1958 Act.

21. I do not have any doubt that we should carry through to completion those of the Commission's proposals which have already been approved, or on which I expect to announce decisions during the next few months - Tees-side, Tyneside and a series of proposed county borough extensions in Yorkshire, Lincolnshire and East Anglia.

22. More difficult is the question whether the Local Government Commission should complete their work (and this is not made easier by the fact that the Chairman has died, and the Deputy Chairman has just left to become President of the Lands Tribunal). As noted above, the Commission have just produced draft proposals for the Manchester and Merseyside conurbations; these have followed draft proposals for the rest of the North-West envisaging extensions of a number of existing county boroughs. It would take the Commission the best part of a year to produce final proposals for the two conurbations, and nearly another to complete the rest of their work on the North-West. After the North-West they have southern and south-east England left to deal with. Here they are only just starting, and their work will be made especially difficult because new cities and major expansions of existing towns are in the offing (following the South East Study) though it is not yet known precisely where or what size they will be. It would be three years from now before all their work was completed; and at least another two before decisions on their proposals could be reached and implemented.

23. I think the only question we have to consider is whether we should see through the re-organisation of the Manchester and Merseyside conurbations. I doubt if it is worth pursuing the extensions of the Lancashire county boroughs - very disheartened though they will be if we do not give them the chance to get their extensions. Many of them have deputed to me to protest against the possibility that the Local Government Commission's work should not be completed so far as they are concerned. But these extensions would entail a prolonged series of bitter fights with Lancashire (who have also deputed to urge that we should not take the Commission's proposals any further); and to the extent that we felt compelled under the present rules to accept the proposed extensions they would, taken together with the conurbation proposals, play havoc with the county. So, on the whole, I would not go on with these. Nor would I let the Commission start on the South and South-East.
24. That leaves the two conurbations. The proposal for Greater Manchester (see paragraph 15) would be a big step forward; and several of the county boroughs involved are urging me to go ahead with it. Indeed I would like to do so. The proposals for Merseyside on the other hand (including, faut de mieux, a joint board for planning which could never be satisfactory) are hardly worth pursuing. But it would be very difficult to go on with one conurbation and not the other.

25. Moreover if we were to decide to see through the re-organisation of the two conurbations, that would postpone the appointment of a Royal Commission for at least two years - until I had announced my decisions. We could not be conducting inquiries into these proposals - which would be bitterly opposed by Lancashire and Cheshire County Councils, and also by other authorities - while a Royal Commission was sitting to consider the right shape of local government.

26. So far as the Departmental interest is concerned, I think the right course must be to start the new review now, winding up the Local Government Commission forthwith. I have consulted all the Ministers concerned with local government, and they all take this view. If we postpone appointment of the Royal Commission we may lose much of the support for a radical review which we have got at present. Meanwhile, local government will become progressively weaker. The Royal Commission could pick up where the Local Government Commission leave off, and make a better job of the North-West, taken all round, than can be done under the 1958 Act. I should be sorry to put off the re-organisation of the Manchester conurbation, and also to dishearten the Lancashire County boroughs; but I am sure that, from the point of view of local government, the arguments for getting on with the new review as fast as we can are decisive. But there are political considerations which may point the other way; and this is a matter which the Cabinet will wish to discuss.

27. We should have to legislate for the winding up of the Local Government Commission - whether we decide to do this forthwith or only after they have completed some or all of their Lancashire proposals. This could be done in the Local Government Finance Bill to be introduced later this session.

Procedure and terms of reference of Royal Commission

28. I will suggest terms of reference if it is decided that we should appoint a Royal Commission now. These should allow for completely radical proposals. I have already suggested (paragraph 11) that the Commission should start by considering which services ought to be national and which local; and while this will add to their work and so to the time they must take, I think it is right that they should be asked to do this.

29. On their procedure and timetable, I am sure that we must ask the Royal Commission to produce a fully worked out scheme. I believe this will be essential if we are to get the job done. We must not again get landed with a set of principles which then have laboriously, area by area, to be applied, while the existing local authorities fight them every step of the way in a struggle to retain their identities. This would, certainly, add considerably to the time the Commission must take - a complete job would take two years at least. But a fully worked out scheme would save a great deal of time in the long run.
When we received the final report, we would have - if we accepted the recommendations - to implement them in one comprehensive Bill, settling the broad areas (though no doubt allowing for detailed boundaries to be settled subsequently). Whatever measure of acceptance there may be within local government, that a radical re-organisation is required, we must be under no illusion that the authorities will, when it comes to the point, fight any measure which involves their disappearance or amalgamation. But a Government determined on reform could, I believe, get a comprehensive measure through.

Scotland and Wales

The Secretaries of State for Scotland and Wales have been working on local government re-organisation in their respective countries, with a view to producing a more radical re-organisation than is possible in England under the Local Government Act. (In Wales this followed rejection by the Government of proposals which had been made under the Act, by the Local Government Commission for Wales, for a re-grouping of the Welsh counties.) I understand that the Secretary of State for Scotland may wish shortly to propose the institution of a high level inquiry; and that in his view a decision on any such proposal can be taken independently of what we settle for England, since the Scottish local government structure and division of functions between authorities differs greatly from those in England. The Secretary of State for Wales is circulating a separate paper on the position in Wales.

Conclusion

I ask my colleagues to agree that a radical inquiry is needed into the functions and organisation of local government in England; and that this means a Royal Commission - the terms of reference to be submitted to the Cabinet.

If this is agreed, I ask them to consider whether we should appoint the Royal Commission now, winding up the Local Government Commission forthwith; or whether we should see through the current proposals for the Manchester and Merseyside conurbations - even also the proposals for the extensions of the Lancashire county boroughs outside the conurbations.

If we appoint the Royal Commission now we might have their recommendations by the summer of 1968. If we decide to carry through proposals for the Manchester and Merseyside conurbations, that would delay the start of the Royal Commission by perhaps 2 years, so that we would not have their recommendations till 1970 (just about the time that proposals for Manchester and Merseyside could be brought into force). If, in addition, we thought that we must carry through the proposals for extending the Lancashire county boroughs, that might add another year. We could, of course, shelve the whole question of a new review until the Local Government Commission have finished their job, including the South - which would put off a start for at least 5 years; but I assume that no-one will want that. Whatever we decide we have to announce our intentions now - and unless we decide to let the Local Government Commission finish their course we have to legislate now for winding them up.

R, H, S, C.

Ministry of Housing and Local Government, S. W. I.,
20th January, 1966
17th January, 1966

CABINET

SUPER VC10s FOR MIDDLE EAST AIRLINES

Memorandum by the President of the Board of Trade

For the past year the British Aircraft Corporation (B.A.C.) have been trying to conclude a deal with Middle East Airlines for the sale of a number of Super VC10s. They have been in stiff competition with Boeing and more recently with Douglas. And it has at all times been pretty clear that it would be impossible for B.A.C. to get the contract on terms which they regarded as commercially possible without Government assistance.

2. In March 1965 the Ministerial Sub-Committee on External Economic Policy agreed that this prospective sale could not be judged solely on its individual commercial merits. The majority of the Committee agreed that the balance of advantage lay in making a special offer to sell Super VC10s to Middle East Airlines in the hope that this would lead to sales to other overseas airlines and generally to maintaining the competitive position of British long range aircraft in world markets. At that time Middle East Airlines were asking for their existing Comets to be bought back at a price greater than their true resale value. It was agreed to underwrite to a substantial extent the re-purchase of these aircraft by B.A.C.; and it was expected that the loss falling on the Government would be of the order of £3½ million in consequence.

3. Since March 1965 negotiations have continued. In the course of them Middle East Airlines decided that they wanted to retain the Comets so that the offer to re-purchase them at a favourable price became irrelevant. The number of Super VC10s required was reduced from five to three with an option on a further four. B.A.C. reduced the price for the aircraft to one which covered only the bare expenses of producing aircraft to the Middle East Airlines' order.

4. Recently the Chairman of Middle East Airlines has indicated terms on which he might be prepared to buy the Super VC10s. These are as follows:

(i) The price for the aircraft to be £2.67 m. - the lowest price B.A.C. will go to.

(ii) B.A.C. to make an interest free loan for ten years of £360,000 per aircraft.

(iii) Payment for the aircraft to be 2½ per cent on signature of contract, 2½ per cent per cent on delivery and the balance of 95 per cent spread over ten years (the usual credit terms).
(iv) Arrangements for the sale of Lebanese apples to be made in the United Kingdom of at least 20 per cent of the value of the aircraft.

5. B.A.C. have now said that they are only prepared to sign a contract on these terms if the Government will give them the following assistance:

(i) To make available the £1 m. necessary to finance the interest free loan for ten years to Middle East Airlines.

(ii) To make a further loan of £240,000 interest free for ten years to cover the probable deficit on the sale of the aircraft at a price of £2.67 m.

(iii) To provide working capital of about £7½ m. to B.A.C. over the period of production to be repaid on delivery of the aircraft.

6. As regards the sale of Lebanese apples in this country the position is as follows. Apples generally are on a global import quota. We have made it clear that we could not agree to establishing a special quota for Lebanese apples. However, B.A.C. have found an importer who, for a suitable commission, will use part of the global quota to import Lebanese apples. The amount is not much but it will slightly reduce the imports we have been obtaining from traditional suppliers. And it will be well-known that this is part of a deal which has been made possible only by Government assistance. We may well have protests from traditional suppliers and attempts to raise the global quota. We should try to avoid doing this, because it would create difficulties with our home apple growers, but we might in the end be forced to.

7. There may also be some difficulty over securing Export Credits Guarantee Department (E.C.G.D.) credit for the full sum involved in the deal since E.C.G.D. do not regard Middle East Airlines as credit-worthy for the full sum. We hope, however, that this difficulty can be overcome without overriding the commercial judgment of E.C.G.D.

Arguments in favour of giving Government assistance

8. The Minister of Aviation holds the view strongly that in the special circumstances of this deal we ought to help B.A.C. in the way they ask. I myself on balance share this view; and so do the Minister of State, Foreign Office, and the Parliamentary Under-Secretary, Commonwealth Relations Office. Our reasons are as follows:

(i) If B.A.C. secured this order for Super VC10s, it would increase the chances of selling a few more of these aircraft to other overseas airlines which have not yet completed their purchases of long range jets. There are still some prospects of selling the aircraft in such countries as Nigeria, Malaysia, Thailand, Austria and even Czechoslovakia. If, on the other hand, we lose the Middle East Airlines contract, it seems very likely that we shall have to abandon any hope of selling the Super VC10 in world markets. This would probably end the prospect of exporting British long range supersonic jet aircraft.
Moreover, we have already made offers to Middle East Airlines which would have involved a Government subsidy for the deal of probably £5 million, and perhaps more. The cost of the interest-free loan now proposed to B.A.C. will be about £7 million, on a discounted cash flow basis. We think it would be a mistake in effect to withdraw the offer, albeit in a different form.

To give an interest-free loan to Middle East Airlines cannot be regarded as unfair competition since the Douglas Company has already offered an even larger interest-free loan if they get the contract. It is no more than "matching" in principle; and assistance of this kind to aircraft sales is not regarded internationally as an outright export subsidy.

The direct loss of this contract may in the end be somewhat offset by profits on the sale of spares to Middle East Airlines over the next ten years.

Arguments against giving Government assistance

9. The Chief Secretary, Treasury, and the Minister of State, Department of Economic Affairs, are, however, strongly opposed to giving B.A.C. the assistance they demand. The Minister of Agriculture is also disturbed about the probable repercussions of that part of the deal which involves Lebanese apples. The arguments advanced against subsidising the deal are as follows:

(i) Whether or not we get this contract with Middle East Airlines, the chances of selling many Super VC10s elsewhere on a commercially profitable basis are very small. All the major airlines are now committed to American jet aircraft of this generation. The few remaining airlines who have not yet re-equipped will almost certainly not be prepared to buy VC10s save on a subsidised basis.

(ii) It is wrong for Britain to continue using scarce resources in the engineering field to produce aircraft which can only be sold abroad at a loss, as will probably be the case with VC10s.

(iii) Since the original decision was taken in March 1965 to try to secure this contract on uncommercial terms, it has become quite clear that the VC10 will not be a success in world markets; the Plowden Report had recommended that the British Aircraft industry should not seek, at any rate on its own, to stay in the market for large jet aircraft.

10. If it is decided that we should go ahead, the Minister of Aviation would propose to increase the launching aid to B.A.C. for the VC10s by £1,320,000. So far the Government have provided just over £10 million, out of a total development cost of £36 million, so that the total assistance would still be far below the 50 per cent "norm" for launching aid. The Minister proposes that the working capital could be made available either under the launching aid procedure or through provision of a bank guarantee.

11. The Treasury state, however, that it would not be correct to describe as "launching aid" in the Estimate what is essentially a loan to the B.A.C. A Supplementary Estimate would have to be taken this year in which the nature and purpose of the loan would have to be made clear. Similarly, specific Estimate provision would be needed to cover the making available of working capital either in the form of a loan or in the form of a bank guarantee.
Conclusion

12. The decision whether or not to give a Government subsidy to B.A.C. in connection with this contract turns, therefore, basically on one's judgment as to whether the securing of this contract is likely to make very much difference to the chance of selling additional VC10s or other British aircraft in world markets. Some of us believe that it might tip the scales sufficiently to produce additional orders which would make the relatively small subsidy worthwhile. Others of us do not believe it would.

D. P. T. J.

Board of Trade, S. W. I.

14th January, 1966
NOTE

The reports by the National Board for Prices and Incomes attached to the Note by the First Secretary of State and Secretary of State for Economic Affairs (C.(66) 8) are for discussion at the meeting of the Cabinet arranged for Thursday, 20th January at 10.30 a.m.

The contents of these reports are of a particularly confidential character. Ministers will no doubt ensure that they are treated accordingly.

The Note and Annexes should be returned, under cover, after the meeting to:-

Mr. V.C. Budgen,
Cabinet Section,
Room 140,
Cabinet Office,
S. W. 1.

Cabinet Office, S. W. 1.
17th January, 1966
CABINET

REPORTS BY THE NATIONAL BOARD FOR PRICES AND INCOMES ON PAY OF THE ARMED FORCES AND OF THE HIGHER CIVIL SERVICE

Note by the First Secretary of State and Secretary of State for Economic Affairs

We announced on 25th November, 1965, the Government's decision to refer to the National Board for Prices and Incomes the pay of the armed forces and that of the Higher Civil Service. The Board has now submitted its reports on these subjects. Copies are circulated herewith as Annexes A and B respectively.

Armed Forces

2. The report recommends that the 1966 review should be carried out and implemented in the same way as previous reviews and that the increase above the norm produced by the application of the agreed formula is justified. I understand that this would add about £56 million to the Defence Budget in 1966-67.

Higher Civil Service

3. The report expresses the view that the recommendations of the Standing Advisory Committee (the Franks Committee) are consistent with the White Paper on Prices and Incomes and recommends that they should be put into effect. The additional annual cost would be £1½ million. It recommends that for the future the Standing Advisory Committee should be invited by the Government and National Staff Side to take account of the White Paper.

Action by the Government

4. I suggest that the Cabinet should discuss both these reports at the next available opportunity and that to avoid leakage and speculation we should publish them as soon as possible thereafter, simultaneously announcing the action which we are proposing to take. I understand that a decision is desirable not later than 21st January in order to leave time for the necessary provision to be made in the Estimates and to avoid the necessity for Supplementary Estimates.

G.D.

Department of Economic Affairs, S.W.1.

17th January, 1966
REPORT NO. 10
NATIONAL BOARD FOR PRICES AND INCOMES
ARMED FORCES PAY

Presented to Parliament by Command of Her Majesty
January 1966

LONDON
HER MAJESTY'S STATIONERY OFFICE
PRICE NET

Cmd.
The Government are committed to carrying out a review of the pay of the armed forces at two-yearly intervals in accordance with the procedure described in Cmd. 945, dated February 1960. The next review is due to take effect on 1st April, 1966.

The formulae used to determine the increases due under these reviews is set out in Cmd. 945 viz.

(a) Change in the pay of Service Officers would in future be governed broadly by the relative changes in the pay of comparable grades in the Home Civil Service. It was decided that comparable grades should be the Executive and Administrative grades.

(b) Changes in the pay of ratings, soldiers and airmen would be governed broadly by changes in the average earnings and wages in manufacturing and certain other industries as notified by the Ministry of Labour.

The Government request the Board to advise them by not later than 18th January, whether the increases in pay produced by the application of the formulae in Cmd. 945 for implementation from 1st April, 1966 are, in relation to total emoluments, consistent with Part 1 of the White Paper on Prices and Incomes Policy (Cmd. 2639) and in particular with the criteria laid down in paragraph 15. Special regard should be paid to the need of the Services to recruit and retain on a voluntary basis sufficient men to meet the commitments of the Services, and to the special features of Service life.

25th November, 1965
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To The Queen's Most Excellent Majesty

May it Please Your Majesty,

We, the undersigned Commissioners having been appointed to consider any matters referred by any of Your Majesty's Ministers relating to the "prices charged for goods or for the application of a process to goods or for services; or such claims, settlements or questions relating to pay or other conditions of service or employment; or such questions relating to other money incomes" as may be so referred; and "in considering such matters to have regard to the considerations set out in Command Paper Number 2639 on Prices and Incomes Policy and to such further considerations relating to the national interest as one or more of Our Ministers may from time to time determine;"

And having been requested by Your Majesty's Government to examine whether the increases in pay for the Armed Forces which would be produced by the application of the formula described in Command Paper Number 945 are, in relation to total emoluments, consistent with Part 1 of Command Paper Number 2639, paying special regard to:-

i) the need to recruit and retain on a voluntary basis sufficient men to meet Service commitments; and

ii) the special features of Service life;

Humbly Submit To Your Majesty The Following Report.
1. The Grigg Report on Recruiting (Cmd. 545, published October 1953) covered many aspects of the problem of recruitment and retention of manpower for the Armed Forces. On pay, it took the view that the current Service rates (effective at April 1958) bore a reasonable relationship to those outside, and did not deter recruitment. It recognised, however, that there was acute concern in the Services about the need to preserve the real value of total emoluments and recommended that there should be an automatic biennial review to take into account movements in civilian earnings over a range of occupations to be determined between the Treasury and the Service Departments.

2. The Government agreed, in commenting on the Report in November 1953 (Cmd. 570), that Service pay and pensions should be reviewed regularly at intervals of not more than two years. The first of the biennial pay reviews, published in February 1960 (Cmd. 945), described the basis on which changes in Service pay would be determined in future. For Officers they would be governed broadly by relative changes in the pay of comparable grades in the Home Civil Service, (the Executive and Administrative grades), and for Other Ranks by changes in average earnings and wages in manufacturing and certain other industries as notified by the Ministry of Labour. Thus the Grigg system comprises biennial reviews based on clearly defined comparisons with pay movements outside the Services.

3. The present review is the fourth in the series and is due to take effect in April 1966. We were asked by the Government to advise them by 18th January 1966 whether the increases in pay arrived at during the
present review through the application of the Grigg formula were, in relation to total emoluments, consistent with Part 1 of the White Paper on Prices and Incomes Policy (Cmd. 2539), particularly paragraph 15. We were asked to pay special regard to the need of the Services to recruit and retain on a voluntary basis sufficient men to meet the commitments of the Services, and to the special features of Service life. Our terms of reference did not invite us to examine the validity of the Grigg formula; we have, however, indicated one important respect in which it may need to be reconsidered in relation to the White Paper on Prices and Incomes Policy.

4. The future manpower requirements referred to in this Report are based on current assumptions about defence policy.
5. The pay structure of the Armed Forces is designed to produce broad equality of treatment for each Service, while providing for the differences between them in character and function. It can conveniently be described under two heads - Pay and Allowances.

6. Pay consists of:
   (a) the basic pay for a given rank (including 'trade' pay as appropriate). This varies for Other Ranks according to the period of engagement;
   (b) additional pay for special skills (e.g. flying pay, parachute pay, submarine pay) or for particularly disagreeable conditions (e.g. Hard Lying money). Additional pay accounts for only about 3 per cent of the 'pay' budget;
   (c) increments (for length of service).

7. Allowances are paid to cover the additional expenses incurred by Service personnel in the course of their Service activities, and in lieu of items normally provided in kind. Only two of these allowances are regarded as part of the total earnings of individual Service personnel. These are:
   (a) marriage allowance (about half the total Service personnel are married); and
   (b) ration allowance (paid to anyone not fed in kind).

8. Total emoluments is the sum of the items comprised in pay (including additional pay and increments), marriage allowance and ration allowance. It is in relation to this total that we are asked to consider the increases produced by the application of the Grigg formula.
At each biennial review the relevant percentage increases produced by the formula are applied to the budget for pay of Officers and Other Ranks at current rates. The resultant increase in the pay budget is called the **global sun**. This sum is then distributed in the form of increases in basic pay and increases in additional pay or in certain forms of additional pay. In order to maintain a coherent structure of pay scales the basic rates are kept, as far as possible, in the same relationship; flexibility is obtained through changes in additional pay although these usually take up only a small proportion of the **global sun**.

Marriage allowance and ration allowance, although reckoned as part of total emoluments, are not taken into account in apportioning the global sun. Changes in these allowances are made separately from the biennial review. The marriage allowance was last changed in 1964 and no revision is currently proposed; the ration allowance is adjusted twice a year in line with changes in the price of some basic foods.

The preparations for a biennial pay review start in the autumn of the year before the next pay award is due. In assessing the appropriate increase for Other Ranks, the latest information available at this time of the year on earnings in manufacturing and other industries relates to the previous July and this is compared with earnings two years before. In the case of Officers, all known information about movements in salaries of the Executive and Administrative grades of the Civil Service since the last review is taken into account. On this occasion, namely, the autumn of 1965, a comparison was made with the movements in earnings in industry between 1st August 1963 and 31st July 1965; this showed an increase of 18.3 per cent. The comparison with movements of salaries in the comparable grades of the Civil Service showed an average increase of between 18 and 19 per cent. This latter comparison includes the increase of 3½ per cent payable to the non-industrial Civil Service on 1st January 1966, but excludes the increases recommended by the Standing Advisory Committee for the Higher Civil Service because they have not yet been implemented.

The **global sun** produced by the current review, expressed as a percentage of total emoluments (i.e. pay, marriage allowance and ration allowance) represents an increase of 12½ per cent on the previous level. This is an overall percentage increase and it does not necessarily follow that all Service personnel will receive the same proportionate increases. Much depends on the entitlement of individual Service personnel to particular forms of pay or marriage and ration allowances.
13. The increase of 12\% per cent on total emoluments resulting from the application of the Grigg formula would be effective from 1st April 1966 and, if the biennial review system is continued, be operative for two years. Within the pattern of regular biennial reviews an increase in total emoluments over two years in line with the average annual rate of increase laid down in the White Paper on Prices and Incomes Policy would be between 6 and 7 per cent. Thus an increase of 12\% per cent over two years falls to be considered as an exceptional increase within the terms of paragraph 15 of the White Paper.

14. The concept of productivity cannot be applied in any real sense to the activities of the Armed Forces. Our attention has been drawn, however, to the more exacting conditions under which the Armed Forces are now operating. The incidence of overseas commitments in recent years has amounted, in effect, to running wartime operations under peacetime conditions of service. This combined with the manpower shortage dealt with later in this Chapter has meant that those actually involved in such operations have been stretched to the full, whilst those not directly involved have had to cover additional commitments. It was suggested to us that in this way members of the Armed Forces can be said to have contributed to the more effective employment of manpower.

15. The Services have sought to make more productive use of their available manpower in other ways. Work study and O. & M. organisations have effected economies in the manpower required for particular tasks and improved operational efficiency (for example, in the servicing and inspection of armoured vehicles, in the docking, maintenance and turn-round of submarines). Automatic processes have been introduced in storekeeping and accountancy. Computers have cut down on clerical work; modern programme control techniques have been used on a number of projects. Civilians have been used wherever appropriate to release
Servicemen for operational duties. In these and other ways the
'tail' element in the Armed Forces has been reduced.

16. So far as operational personnel are concerned, the Royal Air Force
have increased the ratio of flying hours to personnel and the Royal
Navy have considerably reduced the ratio of time in harbour to time
at sea for certain of their ships. They claim that they are
continuing to look for further opportunities for streamlining their
methods, but that neither this nor more elaborate mechanisation and
automation can make good the basic shortage of manpower, particularly
for conventional military operations.

17. The current recruitment and re-engagement position of the Services is
unsatisfactory and appears to be deteriorating. At about 400,000 men
overall, the Services are down on their target with severe shortages in
certain branches. The overall strength of the Armed Forces has fallen
slightly since the ending of National Service, but their commitments
overseas have increased.

18. It is estimated that the annual number of recruits required during the
next few years will be of the order of 40,000 - 45,000. This amounts
to 1 in 5 of the young men in the 15 - 19 age group who are not
disqualified (e.g. on physical grounds) or lost to higher education.
On present recruiting rates, the Services will not reach this target.
For 1965 the recruiting figures for the three Services show a short­
fall on their overall target of some 15 per cent.

19. Targets for recruiting are, of course, dependent not only on the
target for the total size of the Services but on the extent to which
they achieve their targets for re-engagement. The Royal Navy aims at
65 per cent re-engagement for those on 12 year engagements and 50 per
cent for those on 9 year engagements. In 1964 re-engagement stood at
52 per cent and 33 per cent respectively; in 1965 it fell to 48 per
cent and 24 per cent. The Army requirement is for a 100 per cent
re-engagement for technicians and higher skilled tradesmen at the 6
and 9 year option points, and 60 per cent and 40 per cent for all others. The current rate of re-engagement of all personnel at the 6 year option point is about 40 per cent and the evidence suggests that at the 9 year option it is unlikely to exceed 35 per cent. In the Royal Air Force the number of airmen re-engaging in 1965 was only about half the number required. The failure of the Armed Forces to re-engage as many men as they require both reduces the number of experienced men available and means that a greater proportion of them must be used in training replacements.

20. For Officers, the Services are below strength overall, especially as a result of shortages of graduate and technically qualified entrants. The Service Colleges continue to be filled but they provide only part of the Services' requirements (and even here the Services are experiencing difficulties, e.g. the Royal Air Force have experienced a decline in recruitment for Cranwell). The remainder of the Services' requirements is met from Officers on commissions of shorter duration, but there is considerable difficulty in obtaining sufficient numbers.

21. In short, the Services are facing a formidable problem in recruiting and retaining sufficient personnel and, in their view, the problem is likely to grow in the next few years. It is not suggested that improvements in pay alone will solve this problem. Recruiting patterns over the last few years show little direct connection with pay awards and individual studies have produced conflicting evidence on the importance of pay on recruitment and re-engagement. Surveys carried out by the Army in 1961 and by the Navy in 1963 on attitudes among Servicemen to re-engagement did not suggest that pay was a key factor. On the other hand, a recent analysis by the Royal Air Force of 1,200 candidates who had applied to join between April and September 1965, but since 1957, initial engagements in the Army are for 22 years with opportunity to terminate the engagement at a number of stages. The two earliest of these option points are six and nine years.
who subsequently withdrew their applications, showed that inadequacy of pay was the most important reason given for withdrawal. There is also some evidence from an Army study that the attraction of higher pay does induce men to undertake a longer period of engagement.

22. The main burden of the Services' case is that, whilst recognising that pay is only one of the factors to be taken into account, the withholding of a pay increase on the basis of the Grigg system at a time when they are carrying out a biennial review would exacerbate the difficulties of persuading those already serving to re-engage and potential recruits actually to enlist. In other words, in the present manpower situation and at the present stage in the progress of the biennial review, anything less than an award based on Grigg would in all probability make the present position worse.
23. There are special features of Service life which taken together set it apart from the normal run of civilian occupations. Servicemen undertake a whole-time commitment to serve in any part of the world for as long as their service lasts. This involves them in training, preparing for and participating in armed operations; and maintaining efficiency under all conditions, operational or otherwise. It also involves frequent movements at home and abroad, with enforced separation from wife and family, sometimes with little warning. Servicemen have to accept a strict code of discipline and are subject to both military and civil law. They cannot themselves negotiate changes in pay or conditions of employment.

24. Service life also offers many attractive features. Without them it would have been impossible to achieve a voluntary force of some 400,000. Equally, Service life must retain its full attractiveness in the future relative to other opportunities open to young men if present recruiting targets are to be fulfilled. From the evidence submitted to us it is clearly difficult to isolate the effects of the various factors which influence either recruitment or retention of personnel. It is also impossible to demonstrate a statistical relationship between any one of these factors (including pay) and the ability of the Services to reach their manpower targets. The manpower position, however, is such that a relative worsening of any one of the major factors is likely in our view to make it more difficult for the Services to achieve their targets.

25. The assurance of a biennial pay review by which Service emoluments are brought broadly into line with those outside the Services has now been in existence for some years. It features in the leaflets and booklets designed to attract recruits and provides a basis for the career expectations of those who have joined. It could not in our view be
abruptly withdrawn without adversely affecting the retention of personnel when a period of engagement has been completed as well as recruitment. Unless and until the Government duly notifies the members of the Armed Forces that a new system of review of their emoluments is to be adopted, we consider that there is a commitment.

26. We consider accordingly that the 1966 review should be carried out and implemented in the same way as previous reviews and that the increase above the average annual rate of increase laid down in the White Paper, which is produced by the application of an agreed formula, is justified.

27. We noted earlier that we were not asked to comment on the operation of the Grigg formula. We would point out, however, that the formula is based entirely on the principle of comparability with movements in earnings in outside employment, whereas the White Paper on Prices and Incomes Policy suggests that such comparisons should carry "less weight than hitherto" in the determination of incomes. If changes in Armed Forces' pay continue to be made, as in the past, considerably in arrear of changes in earnings elsewhere, the pressures to catch up with those changes will remain considerable, on grounds both of equality and the need to attract and retain the necessary manpower. For this reason alone comparability will inevitably play a continuing role in the determination of Service pay. But the Government may wish to consider whether the somewhat crude application of the principle of comparability, enshrined in the Grigg formula, is reconcilable with the White Paper, and whether greater account should be taken of the other factors set out therein for the determination of pay in the economy generally.

28. This report represents the views of the Board as a whole, although the absence of Mr. F. E. Trench prevents him from appending his signature to it.
ALL OF WHICH WE HUMBLY SUBMIT FOR YOUR MAJESTY'S GRACIOUS CONSIDERATION.

AUBREY JONES
(Chairman).

D.A.C. DEMINEY
(Joint Deputy Chairman).

H.A. MARQUAND
(Joint Deputy Chairman).

J. F. KNIGHT.

R. G. MIDDLETON.

JOAN MITCHELL.

PEDDIE.

ROBERT WILLIS.

A. A. JARRATT (Secretary).

G. W. ROBERTSON (Assistant Secretary).

J. CANE (Report Secretary).
REPORT NO. 11

NATIONAL BOARD FOR PRICES AND INCOMES

PAY OF THE HIGHER CIVIL SERVICE

Presented to Parliament
by Command of Her Majesty

January, 1965

LONDON

HER MAJESTY'S STATIONERY OFFICE

Cmd.
REFERENCE TO THE NATIONAL BOARD

FOR PRICES AND INCOMES

PAY OF THE HIGHER CIVIL SERVICE

The Standing Advisory Committee on the Pay of the Higher Civil Service has recently conducted a review and has recommended increases in salaries as in the Report attached. The National Board for Prices and Incomes are requested to examine and to report on these recommendations in relation to the considerations set out in Part 1 of the White Paper on Prices and Incomes.

25th November, 1965
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REPORT

To The Queen's Most Excellent Majesty

May it Please Your Majesty,

We, the undersigned Commissioners, having been appointed to consider any matters referred by any of Your Majesty's Ministers relating to the "prices charged for goods or for the application of a process to goods or for services; or such claims, settlements or questions relating to pay or other conditions of service or employment; or such questions relating to other money incomes" as may be so referred; and "in considering such matters to have regard to the considerations set out in Command Paper Number 2639 on Prices and Incomes Policy and to such further considerations relating to the national interest as one or more of Our Ministers may from time to time determine;"

And having been requested by Your Majesty's Government to examine and report on the recommendations of the Standing Advisory Committee on the Pay of the Higher Civil Service

Humbly Submit To Your Majesty The Following Report.
1. The Government requested us on 25th November 1965, to examine, in relation to the White Paper on Prices and Incomes Policy (Cmd. 2639), the increases in salary for Higher Civil Service Grades recently recommended by the Standing Advisory Committee on the Pay of the Higher Civil Service.

2. The Standing Advisory Committee came into being in February 1957 following the Report of the Royal Commission on the Civil Service (1953-55). It undertakes from time to time reviews of the pay of the Higher Civil Service either on its own initiative or at the Government's request. In either case it acts as an independent body, reaches its conclusions independently of Government as an employer, and submits its recommendations directly to the Prime Minister. Its recommendations affect about 8,000 civil servants in all; of this total, nearly 1,200 are members of the Administrative Class, and the remainder includes members of the Executive Class and of the professional, scientific and other specialist classes in the Higher Civil Service. This is the third major salary review to be conducted by the Committee since it was set up.

3. The White Paper on Prices and Incomes Policy was published by the Government in April 1965 as the result of an agreement between it, the employers organisations and the Trades Union Congress. The White Paper sets out principles and criteria whereby movements in wages, salaries and prices should be judged. In issuing the White Paper Government was acting, not as an employer, but as a custodian of the national interest. In interpreting any particular case in the light of the White Paper we, like the Standing Advisory Committee, act as an independent body and reach our conclusions independently of Government as an employer.
The Government's request to us to examine the Standing Advisory Committee's recommendations poses two questions. First, are the recommendations in keeping with the White Paper which was published some years after the report of the Royal Commission on the Civil Service, on whose findings the constitution and function of the Standing Advisory Committee are based? Secondly, to what extent should the future task of the Standing Advisory Committee be affected by the White Paper? We treat each of these questions in turn.
The Standing Advisory Committee decided early this year to undertake the review leading to its recommendations because pay settlements for other categories of senior civil servants had compressed the differentials between them and the Higher Civil Service. In order to help it reach its recommendations it collected information about how salaries in other public services and in broadly comparable employment outside the public service had moved since its last general review which was completed in July 1963. This information was given to it in confidence and we have been given an indication of the broad conclusions drawn from it by the Committee.

We give below the Committee's specific recommendations, the percentage increase they represent on existing salaries and the number of officials in each grade.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Numbers</th>
<th>Before</th>
<th>After</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Permanent Secretaries to the Treasury and Secretary of the Cabinet</td>
<td>3</td>
<td>9,200</td>
<td>+ 315</td>
<td>3.5</td>
</tr>
<tr>
<td>Other Permanent Secretaries</td>
<td>30</td>
<td>8,600</td>
<td>+ 315</td>
<td>3.8</td>
</tr>
<tr>
<td>Deputy Secretaries</td>
<td>70</td>
<td>6,300</td>
<td>+ 415</td>
<td>7.1</td>
</tr>
<tr>
<td>Under Secretaries</td>
<td>255</td>
<td>5,250</td>
<td>+ 550</td>
<td>11.7</td>
</tr>
<tr>
<td>Assistant Secretaries</td>
<td>801</td>
<td>3,500 - 4,500</td>
<td>+ 200</td>
<td>6.1 to 4.7</td>
</tr>
</tbody>
</table>

It was recommended that the increases should take effect from 1st September 1965; the last adjustment for Assistant Secretaries was 1st January 1964, and for all other grades 1st August 1963.

* Grades which will no longer, if the Standing Advisory Committee's recommendations are accepted, receive the London allowance. Under Secretaries and Assistant Secretaries will continue to receive an Inner London allowance of £85 a year where appropriate; this was increased from £65 on 1st January 1964.
In considering the relationship of these proposed increases to the average annual rate of increase suggested in the White Paper, it is necessary to take into account the intervals at which pay adjustments are made for the Higher Civil Service. The weighted rate of increase for Higher Civil Service grades as a whole is about 6 per cent. The pay of the Higher Civil Service is adjusted infrequently; this is only the third major review since the Standing Advisory Committee was formed in 1957. Assuming that future reviews take place at similar intervals, the 6 per cent increase proposed will result in an annual rate of increase that is within the standard laid down in the White Paper.

Applying the same considerations to the increase proposed for the various grades, only that for Under Secretaries is likely to be above the standard and, prima facie, any question of consistency with the White Paper arises only in relation to this grade. To this we now turn.

9. The Administrative Class numbers some 2,500 out of a total Civil Service of well over one million employees. Direct recruitment to the Administrative Class is primarily from graduates who are required to have a First or Second Class Honours Degree and to pass a rigorous entrance examination. The pool of talent is small and is drawn on in competition with the universities, professions, industry and commerce. To such graduates the initial salary offered on appointment is of less significance than the salary ranges and promotion prospects available during the course of their careers.

10. The salaries of the lower grades of the Administrative Class, namely, Assistant Principals and Principals, are not reviewed by the Standing Advisory Committee. These salaries have, in fact, moved broadly in line with those paid elsewhere. They have been increased at regular intervals as a result of the central pay settlements that cover the greater part of the non-industrial Civil Service, and of the findings of less frequent pay research surveys.
XI. This has led, during the last two years, to a considerable narrowing of the differentials between these grades and the Higher Civil Service. Thus between 1st January 1964 (when the salaries of Assistant Secretaries were last increased) and 1st January 1966 (when the salaries of Principals will be increased by 3½ per cent under a three-year pay agreement) the gap between the Assistant Secretaries' minimum and the Principals' maximum will have been reduced from £400 to £193. Similarly, since 1st January 1964 the gap between the Assistant Secretaries' maximum and the Under Secretaries' salary has been only £400 compared with the £800 recommended by the Standing Advisory Committee in July 1963. These pressures have resulted in a salary structure which has compressed the differentials at the point where the responsibility of the posts increases significantly. It is essential that this greater responsibility be acknowledged through an appropriately higher salary level. Otherwise the career prospect will not be sufficient attraction to recruit and retain the type of person that the Civil Service requires.

12. The problems of recruitment to the Civil Service were commented on in the Sixth Report of the Estimates Committee published in August 1965. The Committee noted that the shortage of Principals, which was attributed to poor recruitment in the middle fifties became acute in 1964, and "was accentuated by fresh demands on the Service on the advent of the present administration". The Estimates Committee have recommended that a committee, or if necessary a royal commission, should be appointed to examine and report upon the structure, recruitment and management of the Civil Service. A wide ranging report of this kind will no doubt take some considerable time to formulate. Looking immediately at the situation as it is now our conclusion is that recruitment has not kept pace with the increase in the work load, which because of the shortage of staff at the lower levels must add considerably to the load at higher levels. Between 1960 and 1965 we
understand that the Civil Service Commission advertised vacancies for nearly 500 Assistant Principals, but only just over 300 were successful and took up appointments. Wastage in the Administrative Class is not large, but those leaving tend to be in the higher ranks and include people whose loss can have a significant effect on the future performance of the Class.

3. We have stated that the Standing Advisory Committee collected information on a confidential basis about the movement of earnings in comparable posts outside the Civil Service. It is clear from their report that the evidence on movements of other incomes was not, however, one of the primary considerations in their minds when they were framing their recommendations. We understand, nevertheless, that their enquiries left no room for doubt that the average annual increase in the two years from April 1963 of salaries and earnings in broadly comparable employment outside the public sector was appreciably greater than the average annual increase for the Higher Civil Service as a whole which would result from their recommendations.

4. We consider, in the light of this evidence, that the salary structure of the Administrative Class must be improved if the Civil Service is to compete fairly with others for its share of talented people, and provide rewards that are commensurate with the responsibilities carried by the various higher grades. The higher percentage increase recommended by the Standing Advisory Committee for Under Secretaries is, in our view, a necessary step towards this objective and in keeping with the criteria of the White Paper.

5. In making their recommendation, the Standing Advisory Committee stated that the new rates did not fully reflect its "assessment of what would constitute fair and reasonable remuneration for the grades in question". The Committee was, however, influenced in its judgement by its view of "the economic problems confronting the country". The Committee
concluded: "We should not......think it right for those concerned to be indefinitely penalised by a decision taken in the light of a particular economic situation, and we therefore intend to review the salaries of those grades earlier than would otherwise be the case".

16. In so far as we have been requested to examine the Standing Advisory Committee's recommendations in the light of the White Paper on Prices and Incomes Policy, we would comment that the White Paper is not concerned only with a period of particular economic difficulty. It is concerned with the long-term problems of orderly economic growth, and sets out guidance to achieve this end. The White Paper should be interpreted in the light of its long-term aims.

17. Finally we turn to the question of how the Standing Advisory Committee should carry out its task of reviewing the pay of the Higher Civil Service in the light of the White Paper that was published after its formation. We have no doubt of the value to the Government as an employer, to its employees, and to the relations between them of a Committee which, either on its own initiative or on request, makes recommendations about pay in a spirit of independence and objectivity. We consider it of the greatest importance that the independent position of the Committee should, and should be seen to, be maintained.

18. Government, however, acting not in its capacity as an employer but as a custodian of the national interest has, in agreement with the representative organisations of employers and employed, propounded a set of principles which should in future govern all pay increases. It would clearly be illogical if those principles were applied to others but not to Government itself as an employer. We suggest accordingly that Government and its staff, as represented in the National Staff Side, should invite the Standing Advisory Committee, in framing its future recommendations, to take account of the White Paper and of our interpretation of it in paragraph 16 above. Such an invitation to the Committee to pay regard to criteria which are
intended to be of universal application would not represent any
derogation from the independence of the Committee, would not in any
way impair its ability to initiate salary reviews on its own account,
irrespective of the wishes of Government as an employer, and would not
affect its own ultimate responsibility for the recommendations which
it might make.

19. To summarise, the increase proposed by the Standing Advisory Committee
for the Higher Civil Service as a whole is within the terms of the
White Paper and appreciably less than the average increase in earnings
in broadly comparable employment outside the public sector. It will
thus contribute to the need described in the White Paper to balance
above average increases in income with increases below average.
Against this background:

(i) We consider the recommendations of the Standing Advisory
Committee on salaries for Higher Civil Service grades to be
in accord with the White Paper on Prices and Incomes Policy.
(ii) We therefore recommend that the Government should put the
recommendations into effect as from 1st September 1965.
(iii) We recommend that for the future, Government and the
National Staff Side should invite the Standing Advisory
Committee, in framing recommendations either on its own
initiative or on request, to take into account the White
Paper on Prices and Incomes Policy, recognising that it is
designed to promote orderly economic growth and thus to be
applicable over the long term.

20. This report represents the views of the Board as a whole, although the
absence of Mr. P.E. Trench prevents him from appending his signature
to it.
ALL OF WHICH WE HUMBLY SUBMIT FOR YOUR MAJESTY'S GRACIOUS CONSIDERATION

AUDREY JONES
(Chairman)

D.A.C. DEWINNEY
(Joint Deputy Chairman)

H.A. MARQUAND
(Joint Deputy Chairman)

J.F. KNIGHT

R.G. MIDDLETON

JOAN MITCHELL

PEDDIE

ROBERT WILLIS

A.A. JARRATT (Secretary)
10th January, 1966

CABINET

HARDSHIP CLAIM BY THE BRITISH AIRCRAFT CORPORATION FOLLOWING THE CANCELLATION OF THE TSR.2

Memorandum by the Minister of Aviation

The TSR.2 contracts contained the following standard condition:

"(4) If in any particular case hardship to the contractor should arise from the operation of this Condition (viz., the Break clause permitting HMG to cancel the contract at three months' notice) it shall be open to the contractor to refer the circumstances to the Authority (viz., the Ministry) who, on being satisfied that such hardship exists, shall make such allowance, if any, as in his opinion is reasonable, and the decision of the Authority on any matter or thing arising out of this Clause shall be final and conclusive."

2. When we decided to cancel the TSR.2, it was predictable that the British Aircraft Corporation (BAC) would submit a claim for a substantial payment under this clause. The TSR.2 cancellation was quite different from that of the HS.601 and P.1154. These projects were at an early stage, whereas the TSR.2 was at an advanced stage of development, and moreover constituted a major factor in the formation of the Corporation in 1960. Without this project the Corporation would almost certainly not have taken its present form. Its cancellation robbed BAC of the basic work and profit on which all its future plans had been based, and we always recognised that a heavy hardship claim would be made by contractors. My colleagues will recall that in the calculations which were made at the time of cancellation, this was put at a notional figure of £20 million (Appendix to OPD(65) 14, paragraph 2).

3. The chief constituents of BAC's plans had been the Concord supersonic airliner and the BAC 1-11. The Concord was being financed largely (and is now financed wholly) from public funds, but the major part of the 1-11 development was being funded by the Corporation. All their plans for the 1-11 were based on the expectation that the TSR.2 would continue to completion, giving them several years further development work and a reasonably profitable production contract, absorbing a share of their overheads, and providing a financial cushion against any setbacks in the 1-11 programme. If the TSR.2 had gone into service on the basis of 100 aircraft, BAC could have expected total profits of the order of £40 million (excluding possible follow-on orders, spares, etc.). The cancellation of the TSR.2 not only frustrated these expectations; it also threw sufficient doubt on the future of the Corporation to affect adversely the sales prospects of the BAC 1-11 itself.
4. It is not surprising that in these circumstances the Corporation has submitted a claim for financial assistance on a large scale. This claim falls into three parts:

(a) A claim for £8.5 million under the "hardship" provision of the Break Clause of the TSR.2 contracts, this sum representing the difference between the profits which BAC expected to earn had the contracts actually placed (broadly for development and pre-production batches) been completed and the profits it will have earned on work done on them up to termination.

(b) A request for a payment of £19.25 million in respect of the cost of the development of the BAC.1-11 200 series (the first version of the aircraft, towards which a Government contribution has already been made - see paragraph 10 below), the 300/400 series (now under development) and the 500 series (not yet started) - any payment under this heading to be reduced by the amount paid under (a) above.

(c) A claim for £9.452 million for overheads unrecoverable as a result of the cancellation of the TSR.2 contracts.

5. The claim at 4(c) is made under that paragraph of the Break Clause which gives a contractor an indemnity against expenditure which he would have been able to charge against the contract, had it not been cancelled, so far as that expenditure is unavoidable and so far as it represents a loss. The quantum of this claim can be negotiated in accordance with normal contractual practice. It is probable that only a much smaller sum than that claimed will be admissible, and the Corporation have already argued that the balance should be treated as a hardship claim under the clause quoted in paragraph 1 above, additional to the claim at 4(a).

6. The hardship claim at 4(a) must not be confused with the normal cancellation charges. These are strictly related to work done, and expenditure and commitments actually incurred, by the contractor on contracts placed with him up to the time of termination. The TSR.2 contracts actually placed were of a limited nature and covered only part of the future development and production. The hardship claim is for the balance of the profit which the firm think they would have earned had the contracts as placed been completed. It does not include any element for profit on the further contracts which would have been placed had the project not been cancelled. It is peculiarly difficult to deal with. The clause does not provide for arbitration, although the version used up to 1959 did; and there is no precedent for any substantial hardship payment on any other contract. It raises two questions - was there any hardship? - and, if so, how can it be quantified?

7. Nor can the claim at 4(a) be considered in isolation from that at 4(b). In one sense what BAC are saying is that they want a total payment of £19.15 million, plus the amount claimed at 4(c), to put them in a financial position sound enough to absorb the adverse effects of the TSR.2 decision and enable them to continue with the BAC.1-11 programme. So strongly have they emphasised this approach that my Director of Accountancy Services has investigated their finances. His report reveals that these are indeed precarious and that they certainly need an injection of money to enable them to carry on effectively. He assesses the sum required at a minimum of £12 million. Treasury officials have had a copy of his report.
6. The future of BAC is important to us because they are responsible for our share of the Concord airframe development and of the two Anglo-French military projects. But the fact that they are in financial difficulties does not in itself add up to a justification of a large hardship payment. Nor, I am sure, should we contemplate a payment designed primarily to compensate them for the frustration of their expectation of profit on the uncompleted part of the contracts.

9. Having said that, however, I cannot escape the conclusion that the difficulty which they are certainly experiencing in financing the BAC, 1-11 is due largely to the TSR.2 cancellation, and that if the clause quoted in paragraph 1 means anything, this must be regarded as a hardship arising from the cancellation. If this conclusion be accepted, we are left with the more difficult task of deciding at what sum to assess the degree of hardship. Any such assessment must inevitably be to a large extent arbitrary. It should neither be related to loss of profit, nor to the sum needed to put the Corporation on its feet. But I think it could reasonably be assessed on the following basis.

10. The first version of the BAC, 1-11 (the 200 series) was estimated by BAC to cost £19.5 million to develop. In 1962 they applied for the 50 per cent aid which present policy allowed us to contribute towards a promising civil aircraft and were granted it. In the event the actual cost of development substantially exceeded £19.5 million but our contribution has been limited to £9.75 million, half the original estimate. The difference represents the sort of commitment the Corporation would have expected to finance from their TSR.2 profits - had these been available.

11. When BAC decided in 1963 to go ahead with the second version of the aircraft, the 300/400 series, it was open to them to apply for similar 50 per cent Government assistance. Had they done so, they would probably have got it. But they did not apply. They preferred to finance it themselves, partly no doubt because at that time it promised to attract more orders than have in fact materialized, but also partly in the expectation that their profits on the TSR.2 would provide a financial cushion against any setbacks. This expectation has been frustrated. There is no doubt that had they anticipated cancellation of the TSR.2 they would have applied for (and almost certainly received) assistance towards the BAC, 1-11 300/400 series. Indeed, in November, 1964 (when rumours were circulating that the TSR.2 might be cancelled) BAC applied for retrospective launching aid on the 300/400 series. This was refused, but the Corporation were told that they could raise the matter again if they sustained a major blow such as the cancellation of the TSR.2. In the circumstances I feel that they have a strong claim to such assistance.

12. The total estimated cost of developing the BAC, 1-11 200/300/400 series is now put at £36 million. This figure will require further discussion with BAC before we can accept it but it is broadly accurate as representing the actual cost of developing the 200 series and the estimated cost of completing the 300/400 series. They have already received £9.75 million towards the 200 series and my view is that we should now pay them a further sum to bring our total contribution up to 50 per cent of the agreed cost of the project to date and the estimated forward cost. If this is confirmed as £36 million our additional payment would be a further £8.25 million.
13. Although this is a large sum, in fact it breaches in only two respects the principles and policy on which our programme of assistance to civil aircraft development is based. In the first place we should exceptionally be paying half the actual cost of developing the 200 series instead of half the cost estimated in advance; of course had the Corporation correctly forecast the higher cost, they would probably have received a larger contribution initially. In the second place, we should be approving assistance to the 300/400 series after the development has been started (and indeed nearly completed) instead of in advance of the decision by the Corporation to embark on such development. But here the Corporation would certainly have applied for such assistance had they not been relying on the TSR.2. These two exceptions to the normal rules are, in my view, justified by the circumstances. And I must point out that the other side of the medal is that the Corporation will be quick to argue that our offer, substantial though it is, involves no payment which they could not have obtained in any case had their estimate of the cost of the 200 series been more accurate and had they applied in the normal way for assistance towards the 300/400 series.

14. There remains the development of the BAC.1-11 500 series which is included in the Corporation's claim at 4(b) but on which no decision has yet been taken to proceed. The estimated cost of this development is £6 million, the whole of which the Corporation are seeking from the Government by way of assistance. This can be left out of our consideration at the present stage. The project can be examined and processed in the normal way and if my Department feels that there is a strong case for the normal assistance, it will be submitted to the Treasury. But I do not regard it as very likely that a decision to go ahead with the 500 series will be taken.

15. Having come to the conclusion that such a payment of £0.25 million towards the BAC.1-11 would be justified, my predecessor sought the Chancellor's approval to it. The Chancellor felt unable to give this, however, on two main grounds. The first was that he questioned whether any such payment, representing, as it did, a payment in respect of frustrated TSR.2 profits (however much the amount might be based on, and represented as, aid to the BAC.1-11), could be justified when the Corporation were already being fully paid for all work actually done on the TSR.2. Secondly he considered that to make such a payment now, at a time when, following Plowden, we might be about to embark on negotiations designed to acquire a Government shareholding in the Corporation, would be politically indefensible as being likely to raise the cost of acquiring such a shareholding. If any TSR.2 claim was to be admitted, the Chancellor considered that this should be included at the time of any evaluation of the Corporation for the purpose of agreeing a price for its shares. The Chancellor agreed, however, that if BAC could establish a case for a Government loan to tide them over their immediate difficulties, the possibility of such a loan should be discussed with them.

16. I know that my predecessor was - as I am - unhappy at this decision. He pointed out that the Corporation would certainly represent it (and indeed regard it) as a refusal to accord them any justice in respect of the appalling blow of the TSR.2 cancellation, and a deliberate device for depressing the value of their assets for the purpose of valuation preceding any Government purchase of shares. He said that the decision would, in his view, make it unlikely that post-Plowden discussions with the Corporation would get very far on a freely negotiated basis.
17. The decision was conveyed to the Chairman of BAG on 20th December, 1965. His reaction was explosive and was not modified by the offer to discuss a Government loan. He regarded the decision as a rejection of any claim in respect of “hardship” following the TSR.2 cancellation, and wholly refused to accept the argument that the effect of the TSR.2 cancellation should be taken into account in any post-Plowden evaluation of the Corporation. He made the point that no accountant could be asked to do this. It would still be for the Government to decide what allowance should be made on this account. They could not shuffle off this responsibility eventually, and should face up to it now. Following a meeting of the BAG Board on 21st December, 1965 the Chairman wrote to my Permanent Secretary a letter which I attach as an Annex to this paper.

18. It will be seen that this letter takes the line that the rejection of the TSR.2 claim makes free and voluntary negotiations between the Government and BAG on the basis of the Plowden recommendations impossible. Since it was written I have had two meetings with Lord Portal and Sir George Edwards. They have been adamant in their insistence that they will not discuss the Plowden recommendation on a Government shareholding in the Corporation until their claim is satisfactorily settled. Their attitude leaves me no alternative but to bring this matter to the attention of the Cabinet in advance of the paper on the Plowden Report generally which will be circulated later in the month.

19. If we decide to reject the Corporation’s TSR.2 hardship claim, we must do so in recognition of the possible consequences - although these will not be precisely known until the Corporation come to accept the decision as final. Apart from the publicity which the Corporation will invoke, with the inevitable allegations of injustice and discrimination, the main action which BAC have threatened is a drastic curtailment of their activities, including the cessation of BAC.1-11 production. I am not convinced that they will carry out this latter threat. The development of the BAC.1-11 300/400 series has been almost fully paid for, and it would be a little surprising if BAC decided to cease production and thus give up all hope of getting their money back. But it is a possibility.

20. My own views coincide with those of my predecessor. I think that in the exceptional circumstances the Corporation has a supportable hardship claim and that the proposal to base this on "ex post facto" launching aid for the BAC.1-11 is a sensible one. To approve action on these lines at this stage would rid us of a bone of bitter contention which cannot fail to poison our future relations with the Corporation, whatever these may be. It would, of course, be made clear to BAC that the offer of a payment of £8.25 million on account of further assistance to the BAC.1-11 must be regarded as sweeping up any “hardship” claim related to the TSR.2 including any hardship element of the claim at 4(c), and the Corporation have already accepted this. I should add that of the arbitrary sum of £20 million in respect of hardship which we inserted into the calculations when considering the cancellation of TSR.2, £12 million would represent BAC's proportionate and notional "share". A payment of the size now proposed would not therefore in any way invalidate the calculations which were before Ministers at the time the cancellation was decided or erode the savings which were forecast to result from that cancellation.

Recommendation

21. I recommend, therefore, that my colleagues should approve a settlement of BAC’s TSR.2 hardship claim on the lines set out in paragraphs 9 to 13 of this paper.

F.W.M.

Ministry of Aviation, S.W.1.
17th January, 1966
22nd December, 1965

Dear Sir Richard,

I reported yesterday to the Chairmen of the Principal Companies what was said at your meeting with us on Monday last.

I was asked to let you know of the astonishment felt by the Chairmen that they should be expected to open discussions on the Government's intentions with regard to the Plowden Report while our TSR.2 claim remained unsettled. It was remarked that for any negotiations for a partnership between the Government and the Industry to be fruitful the first requirement was mutual confidence between the parties and that this was conspicuously absent at the present time.

It was clear from our talk that there is no basis for further discussion while the claim remains outstanding, and although I should of course be willing to meet the Minister during the first week in January and listen to anything he may wish to tell me I feel that under present conditions I should be unable to make any constructive contribution to the meeting.

Yours sincerely,

Portal of Hungerford

Sir Richard Way, K.C.B., C.B.E.,
Ministry of Aviation,
Horse Guards Avenue,
London, S.W.1.
CABINET

URBAN TRAFFIC AND TRANSPORT

MEMORANDUM BY THE MINISTER OF TRANSPORT

As a result of their discussion of 7th December last about London Transport (CC (65) 68th Conclusions, Minute 3) the Cabinet called for a Report on specific measures to restrain private traffic in London and to raise a financial contribution for London Transport.

2. I have considered carefully the Cabinet discussion including the possibility of supplementary motor licensing as a means of restraint and raising money for London Transport.

3. I see an important difference in supplementary licensing for restraint and supplementary licensing for revenue.

Restraint

4. The evidence suggests that a supplementary charge of at least £50 a year would be needed to restrain road traffic in central London effectively. To be publicly acceptable such a charge would have to be applied selectively so as to be directed to the traffic congestion by which it would be justified, e.g., peak hour car commuting to inner London.

5. The level of charge would be a strong incentive to evasion. New traffic regulations and offences would have to be created. This would mean new legislation, probably in a Road Traffic Bill.

6. A workable substantive scheme of restraint by supplementary licensing would take at least two years to get into operation (including the necessary legislation). It would be prudent (and probably necessary) to carry out at least one experiment first. This, too, would need legislation.

Revenue

7. The simplest and most obvious system of supplementary licensing (and so the quickest to introduce) is one which would apply to all vehicles licensed within a defined area, irrespective of the periods of time or purposes for which the vehicle was used.
8. It would be necessary to choose some readily defined area (e.g., 5 miles radius of Charing Cross or the Greater London area). There would be anomalies at the boundary.

9. A scheme of this comprehensive nature, unrelated to the use of a vehicle at times of congestion or not, could hardly be publicly acceptable except at modest rates of supplementary charge well below the extra £50 or so which would be necessary for restraint. So the scheme would have virtually no effect on car ownership and use within the area to which it applied. It would be little more than a source of revenue.

10. Such a tax might, I suppose, be included in a Finance Bill but a number of important questions would arise in working it out. These would seem to be more a matter for the Chancellor of the Exchequer than for me, although there would be important transport implications of close interest to me.

A comprehensive approach needed

11. But I think it most important that supplementary licensing, whether for restraint or for revenue, should be considered within the context of our urban transport policy as a whole. I am sure that we should not present traffic restraint as an end in itself but as one of the steps needed to keep traffic moving and enable public transport to operate to the greater comfort and convenience of the travelling public.

12. I have already announced my intention to present a White Paper on Transport this spring. I propose that it should set out the lines of comprehensive policies. On the urban side this will involve measures to improve public transport and make it more effective. As part of an integrated policy for urban public transport (particularly for London), there will have to be measures to secure the sensible use of scarce road space, including, for example, tougher parking controls and, perhaps, supplementary licensing. A report of a working group of officials will be ready soon but I am sure that such measures will be publicly acceptable only if they are presented as part of an overall plan for urban traffic and transport that is likely to be effective.

13. In the meantime, I am continuing the discussions with the Greater London Council about the scope for extending and intensifying parking control. This can discourage such car commuter traffic as can, without hardship, use public transport. I think public opinion is ready for this.


B. A. C.

Ministry of Transport, S.E. 1.
CABINET

PUBLIC EXPENDITURE: 1966-67 ESTIMATES

Memorandum by the Chancellor of the Exchequer

The Public Expenditure Committee, having considered the general position on Estimates 1966-67, has been reviewing some of the Departmental Estimates for that year. The Defence Budget has been settled, apart from the pay increases, at about the same money figure as last year, i.e. £2,120 million. The figures for the major civil programmes are based on the public expenditure programme which was approved by the Cabinet at its meetings on 29th July, 1965 (C.C.(65) 43rd Conclusions, Minute 3) and 5th August, 1965 (C.C.(65) 45th Conclusions, Minute 2). The actual figures have, of course, been affected by the deferment of certain capital expenditure which was agreed by the Cabinet on 27th July (C.C.(65) 41st Conclusions) and also by changes in pay and prices since the public expenditure programme was prepared.

2. The programme covered by these decisions represent the great bulk of public expenditure. The remaining items were not suitable for treatment in quite the same way, but have been pruned with the same standards of stringency. The only questions which I had to refer to the Public Expenditure Committee were the Space Programme, and expenditure on overseas information, overseas representation, and military aid. The Committee has discussed these items with the Minister of Aviation, the Minister of State, Foreign Office and the Parliamentary Secretaries to the Commonwealth Relations Office, Ministry of Overseas Development, and Ministry of Public Building and Works. The views reached by the Committee are set out in the Annexes to this paper. (The Foreign Secretary, though a member of the Committee, was abroad at the time of the meetings and reserves his position on the recommendations.)

3. The departmental proposals for these items exceed £100 million. Moreover they are all programmes in which a large proportion of the total cost involves expenditure overseas. In view of our balance of payments difficulties it is particularly important to make every possible economy overseas in expenditure by the Government. It is for this reason, as well as the importance of keeping the growth of public expenditure under close control, that the Committee would strongly recommend our colleagues to agree to our proposals for further reductions in these Estimates as set out in the Annexes.

4. In brief our recommendations are as follows:

EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION (ELDO).

Provision in the Estimates should be restricted to £8 million, the probable cost in 1966-67 on the basis of terminating our commitment in March, 1966, as against £12 million if we had not decided to do this; the possibility would be kept open of a Supplementary Estimate in the light of the March meeting.
BLACK ARROW. Provision should be made for the programme to go ahead at a cost in 1966-67 of £2.35 million, including associated satellite technology contracts.

OVERSEAS INFORMATION. Provision should be £30.6 million: £1 million above 1965-66 Estimates but £2 million less than Departments have proposed.

DEFENCE AID. Only token provision should be made for the supply of a frigate to India. Provision for military training etc. for Commonwealth countries should be held to £3 million; 8 per cent above 1965-66 Estimates but 10 per cent less than has been proposed by Departments. Provision for assistance to Malaysia should be restricted to the realistic cash requirement on existing commitments. In these Votes, the saving would be £1.6 million on a total of £22.6 million.

OVERSEAS REPRESENTATION. The maximum possible economies should be made in the representational element (about £36 million) of the Diplomatic Service Estimate and particularly in building work overseas (on which £10 million is proposed, of which £6 million on capital expenditure, much of which is already in progress): the Ministers concerned are to make proposals.

5. If the Committee's proposals are accepted I hope it will be possible to keep the money increase in total Estimates over last year within about the same percentage as the increase (6.9 per cent) in 1965-66 over the previous year. It would be extremely serious for public presentation if the increase were to be even greater than last year. I hope we shall be able to say that in terms of constant prices we are holding the increase in Estimates below 4½ per cent, and shall reasonably be able to claim that the increase at constant prices in total public expenditure (including central and local government and the national insurance funds) is also likely to be below 4½ per cent, the average for the period 1964-65 to 1969-70 in the National Plan. But an increase of around 9 per cent in money terms is formidable in relation to the economy and in relation to the Budget.

Recommendations

6. The Cabinet is asked to endorse our recommendations in paragraph 4 above.

L. J. C.,

Treasury Chambers, S.W.1.

17th January, 1966
ANNEX A

SPACE PROGRAMME

EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION (ELDO)

At its meeting on 16th December (CC(65) 71st Conclusions, Minute 4), the Cabinet agreed that we should work towards terminating our commitment to ELDO as soon as practicable taking into account the need to minimise the political damage of withdrawal. The cost of ELDO in 1966-67 on the existing basis is about £12 million. If a decision was taken in March to end work on the launcher it would still take some time to bring expenditure to an end; but allowing for cancellation charges we might keep expenditure in 1966-67 to about £8 million, which would secure a saving of the order of £4 million in 1967.

There is, however, a problem of presentation on which the Committee on Public Expenditure has formed a different view from that of the Minister of Aviation and the Minister of State, Foreign Office. The Estimates will have to be published before the meeting of ELDO Ministers in March at which the future of the ELDO programme will be decided. The Minister of Aviation took the view that the publication in the Estimates of a provision of only £8 million would be a clear indication to other Governments that we had already decided irrevocably to withdraw from ELDO and that they were being presented with a fait accompli before the Ministerial discussion in March.
He favoured, therefore, the inclusion of a provision of £12 million in the Estimates, perhaps accompanied by a note that the figure would need to be reconsidered in the light of the Ministerial discussions in March.

The Public Expenditure Committee, however, considered that it would give a wholly misleading impression of our attitude to include a provision of £12 million in the Estimates. If in our present financial position we showed ourselves willing to allocate £12 million for this purpose, and had asked Parliament for the money, we could hardly argue convincingly that we found the cost too great. To include £12 million would unnecessarily inflate the Estimates. The Committee recommended strongly that only £8 million should be provided in the Estimates. A note could be included saying that the figure would need to be considered in the light of decisions taken at the ELDO meeting in March in order to avoid accusations that we were presenting ELDO with a fait accompli.

The second issue which arises on the space programme is whether provision should be made for further expenditure on Black Arrow. At its meeting on 16th December (CC(65) 71st Conclusions, Minute 4) the First Secretary of State summing up said: "that no immediate decision should be taken on the Black Arrow programme though the Cabinet were favourably disposed to it in principle; this should be further considered both as regards the merits
of the programme itself and in relation to the possibility of international co-operation. The extent of the programme would need to be considered by the Committee on Public Expenditure”.

The Committee has reviewed the case for embarking on the Black Arrow programme in the light of the other claims on public expenditure. They reached the conclusion that although there is no sufficient economic justification for the development of a launcher, to leave this field altogether might have damaging effects on the future and might well be misunderstood by public opinion. They were informed that there was no prospect of turning Black Arrow into a joint European venture. They recommend, therefore, that the Black Arrow programme should proceed and that there should be provision of expenditure of £2.35 million in 1966-67.
OVERSEAS INFORMATION

The Departments concerned with overseas information have proposed an increase in expenditure from £29.6 million in 1965-66 to £32.6 million in 1966-67 - an increase of almost 10 per cent. The general activities covered are the work of the information services in posts overseas, the British Council and the BBC External Services. About half the total expenditure is incurred overseas.

About half of the increased expenditure proposed is connected with participation in the Montreal Exhibition which will cost £15 million in 1966-67. This is essentially a prestige project and any assistance to the export drive will be pretty indirect and marginal. The Departments concerned have claimed to be unable to find economies in other activities to offset this large additional item.

The Committee on Public Expenditure considered that in present circumstances it would be wrong to contemplate an increase in expenditure on overseas information of nearly 10 per cent in one year, particularly bearing in mind that this expenditure has doubled in the last eight years. Some increase is inevitable bearing in mind increases in costs and the extent to which we are committed on the Montreal Exhibition. But the Committee recommends that the increase should be restricted to about £1 million, giving a provision for 1966-67 of £30.6 million. Within this ceiling the Overseas Departments should be asked to sort out priorities and trim or cut out those services which in the light of present circumstances are least worth while.
Departments have asked for just under £23 million to cover defence aid to foreign, Commonwealth and Colonial countries in 1966-67. This is a substantial reduction from the figure of £29.4 million in last year's Estimates, mainly as a result of the tapering off of a number of substantial programmes begun in earlier years.

Nevertheless, the Committee on Public Expenditure considered that a number of the items were still unnecessarily large. In particular, they recommend that only a token provision should be included to cover a loan to India for a frigate project since it is uncertain whether payments will be required while military aid to India is suspended. They also consider that the provision for military training facilities for Commonwealth officers and for the secondment of British officers to Commonwealth Forces should not be increased, as Departments propose, by 20 per cent from £2.78 million to £3.33 million. The Committee recommend that these facilities, and in particular secondment of British officers, should be restricted to those cases where it is clearly in British interests to provide these facilities. And they believe that an increase of about 8 per cent over the 1965-66 Estimates (i.e. a figure of £3 million) would be adequate for this purpose.

The Committee also recommend that the provision for military aid to Malaysia should be restricted to the amount which is actually likely to be spent on the basis of present commitments. (Subsequent examination by the
Treasury indicates a saving of £2 million below the figure submitted in the
Estimates. The Commonwealth Relations Secretary is making proposals to the
Defence and Overseas Policy Committee for a new defence aid agreement with
Malaysia and Singapore for the period 1965 to 1969. But this is not for the

The Colonial Secretary has suggested that the British contribution to
the cost of the Federal Guard in Southern Arabia should be included in the
defence aid programme rather than in the overseas aid programme. The cost
is just over £1 million. The Committee on Public Expenditure has no
objection to this change provided that the increase in the defence aid
programme is offset by a corresponding decrease in the main overseas aid
programme. They could not, however, recommend the transfer if the only
result was to permit an increase in other overseas aid expenditure up to the
existing limit.
The Departmental Estimate for the cost of the Diplomatic Service is submitted at £35.8 million, and that for Public Building Overseas at £9.9 million. In preparing these Estimates the Foreign and Commonwealth Secretaries have reduced the basic complement of the Diplomatic Service proper (which represent about one-third of total staff at home and abroad) by over 100 posts to a total of 6,040. The Minister of Public Building and Works in the preparation of his Estimates has taken full account of the need to secure efficiency and economic running of building operations, and of the deferment of capital projects announced in July. Nevertheless, the Committee on Public Expenditure considered that in present circumstances, and particularly in view of the foreign exchange cost, every effort should be made to secure some further economies in this field. The Minister of Public Building and Works is, at our request, considering what further deferrals of work would be practicable. The Committee also asked the Foreign Office and the Commonwealth Relations Office to consider what economies could be made in the cost of the Diplomatic Service and its supporting services, the Estimate for which is at present £35.8 million, mainly for staff and related expenditure; and that similar economies should be made by other Departments with overseas staff. The Committee would like to see savings on the Diplomatic Service Estimate and overseas buildings combined of £4 million, or as near this figure as can be managed without serious detrimental effects on the efficiency of our overseas representation.
CABINET

PUBLIC EXPENDITURE; EUROPEAN LAUNCHER DEVELOPMENT ORGANIZATION (ELDO)

Memorandum by the Secretary of State for Foreign Affairs

In their report (C. (66) 11 (Annex A)) the Committee on Public Expenditure (P.E.) describe this problem as one of presentation. This is true: but it is also one of substance.

2. I am not happy about the decision taken in December (C.C. (65) 71st Conclusions, Minute 4) to terminate the British commitment to ELDO. Events since then have increased my doubts whether that decision was the right one and a paper, prepared interdepartmentally, will shortly be submitted inviting the Cabinet to take another look at the matter. I am sure that it is right to do so and believe that the endorsement at this stage of the P.E. conclusions would prejudge the outcome of this reconsideration.

3. Even if we should decide eventually, after examining the further evidence, to go ahead as planned, I consider that the P.E. proposals are likely to make the course of extrication more difficult and more damaging to our interests. The publication at the end of February of the reduced estimate (and footnote) would leave our ELDO partners in little doubt that we had taken a unilateral decision to get out; they would infer that our approval last month of the ELDO budget for 1966 (including the British £12 million) was given in bad faith; and the concurrent inclusion in the Estimates of the new money for Black Arrow would give them the impression that we were getting out of ELDO in the interests of our own national programme. These implications would greatly complicate the task of getting Britain out of ELDO with the minimum political damage, a task for the conduct of which, if we decide to uphold the earlier conclusion, I would be responsible.

4. I therefore conclude:

(i) that examination of the P.E. conclusions should be deferred until the Cabinet have been able to reconsider their decision of 16th December; or, if for reasons connected with the Estimates postponement is not possible,

(ii) that the procedure should be amended on the lines suggested to the Committee by the Minister of Aviation and the Minister of State for Foreign Affairs, to provide for the insertion of the full sum of £12 million, a note being appended that this item may be subject to adjustment in the light of the intergovernmental meeting in March.

M. S.

Foreign Office, S.W.1.

17th January, 1966
19th January, 1966

CABINET

SECRETARY OF STATE FOR SCOTLAND

Memorandum

At their meeting on 23rd December (C.C. (65) 73rd Conclusions, Minute 3) the Cabinet decided that I should make regulations to increase the salaries of Scottish teachers by an average of 13 per cent from 1st April next and that a reference should be made to the National Board for Prices and Incomes on the question whether this increase put Scottish teachers into a fair relationship with English teachers and, if not, what further adjustment was required to achieve that objective. It was also agreed that the Board should be asked to consider what arrangements should be made to ensure that in future the salaries of English and Scottish teachers came up for review simultaneously, in order to minimise the risk of "leap-frogging".

The Chancellor of the Exchequer and I are not agreed on the way in which the new salary scales for Scottish teachers should be reached on the basis of the 13 per cent increase on which we decided.

The Chancellor wishes me to base the scales on a reduction, by a uniform percentage, of the recommendations of the Scottish Joint Council for Teachers' Salaries (the negotiating body), so as to preserve the lead proposed by the Council for three-year trained non-graduate teachers. The arbitration award on English teachers' salaries raised the increases at the lowest points on the English basic scale from £80 to £100, and the Chancellor considers that, if the scales I propose are adopted, the Prices and Incomes Board would be likely to recommend a corresponding increase for the Scottish lower paid teachers.

For many reasons I am clear that my right course is to apply a general 13 per cent increase to the existing scales. Within the overall increase of 15 per cent which I proposed to the Cabinet to enable me to accept as a whole the recommendations of the Scottish Joint Council I would have been ready to accept a lead for the non-graduate scale in the context of approving in full an agreed settlement. But now that I am limited to an overall 13 per cent increase, it would be quite unjustifiable to give a lead to the non-graduate scale. This scale is entirely different from the English basic scale: the Scottish scale is a women's scale (we do not have non-graduate men teachers of general subjects in the schools) and there are no arguments whatever on recruitment grounds for treating the non-graduate women teachers more favourably than graduates and holders of specialist diplomas. These, and not non-graduate women, are the teachers who are scarcest and whom it is most difficult to recruit. Given the 13 per cent limit, there is no
argument for upsetting the present structure of relativities. (The aim of the negotiating body in proposing larger proportionate increases for the non-graduate women was essentially to achieve parity at the maximum with the English basic scale, and since this cannot be done within an average 13 per cent increase the case for the higher increases lapses). The graduates and specialist diploma holders would object most strenuously to the larger proportionate increase which the Chancellor wishes me to give to the less well qualified category, and the difficulties which I am bound in any case to have with the teachers over the salary settlement would be very seriously aggravated.

5. I am under immediate pressure to make a statement on salaries and I must therefore ask for a decision now.

W.R.

Scottish Office, S.W.1.

19th January, 1966
CABINET

FLOWDEN REPORT ON THE AIRCRAFT INDUSTRY

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

A Committee of Ministers under my Chairmanship has been considering the recommendations of the Flowden Report on the Aircraft Industry.

2. The main conclusions of the Report were that a substantial contraction in the size of the aircraft industry was likely to be needed, particularly on the airframe side. The Report said that the level of support which the industry had been receiving from the Government through high prices paid for military aircraft and through unrecovered contributions to the development of civil aircraft had been too high and should be reduced. The Report recommended concentration on projects for which development costs were not disproportionate in relation to the market; and whole-hearted co-operation with aircraft industries in European countries on joint projects. Finally, the Report recommends the purchase by the Government of a financial share in the two main airframe companies.

3. We are agreed that the line which should be taken by the Government on these recommendations is as follows.

(i) We accept the basic analysis of the future of the aircraft industry in the Flowden Report. In the light of that analysis we are convinced that there is only room for one main airframe company in Britain.

(ii) We therefore believe that a merger of the airframe interests of the British Aircraft Corporation and of Hawker-Siddeley should be arranged and that the Government should take a shareholding in the new company.

(iii) We believe that this partnership between the Government and the airframe industry should be arranged on a mutually agreed basis and that the precise nature and terms of the Government participation should be settled in negotiations with the existing companies.
(iv) The purpose of the merger will be to bring about a reorganisation of the aircraft industry to enable it to fulfil the role indicated in the Plowden Report.

4. The Minister of Aviation would propose to announce the Government's attitude to the recommendations of the Plowden Report along the lines set out in this note in a Debate on the aviation industry in the House of Commons early in February.

G. B.

Department of Economic Affairs, S. W. 1.

19th January, 1966
21st January, 1966

CABINET

LOCAL GOVERNMENT REORGANISATION

Memorandum by the Secretary of State for Wales

I agree with the view of the Minister of Housing and Local Government in C(66) 6 that the time has come for radical reorganisation of local government, but I doubt whether the answer is an inquiry by a Royal Commission.

2. The Local Government Commission for Wales, which had been set up under the Local Government Act, 1958, reported in 1962 making certain proposals for the reorganisation of local government in Wales. The Government of the day took the view, however, that its recommendations would not provide a fully satisfactory basis for an effective local government structure in Wales and undertook to prepare new proposals itself.

3. When I took over responsibility for local government in Wales, I arranged for an interdepartmental Working Party of representatives of the Home Office, Department of Education and Science, Ministry of Health and Ministry of Housing and Local Government, as well as of the Welsh Office, to produce proposals. Because I was particularly anxious that they should not work in isolation from the local authorities, I arranged with the Local Authority Associations that a panel of 33 people with wide experience of local government in Wales should be nominated to consult informally with the official Working Party.

4. This work is now at an advanced stage. The panel of local authority advisers have given their views on the defects of the existing organisation and have made suggestions for remedial action, which they agreed was long overdue. Taking these suggestions into account, the Working Party have worked out in detail two alternative proposals for the reorganisation of local government and these have been put to the advisers for their observations. When this stage has been completed the Working Party will report to me, and I shall be in a position to put proposals before my colleagues.

A Royal Commission

5. I have had abundant evidence in the last year that the need for local government reorganisation in Wales is recognised to be an urgent necessity. I have stated on several occasions that the Government recognises this and intends to take action as soon as possible. It would be extremely embarrassing to me, therefore, if proposals were now to be announced which would in any way delay the progress of the work which has already been done on local government reorganisation in Wales.

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6. I appreciate that the Minister of Housing and Local Government has limited his suggestion to a Royal Commission for England. Indeed, against the background of the detailed proposals on which I am known to be working it would look odd if we were now to appoint a Royal Commission to cover Wales as well as England. Even if, however, the Commission's terms of reference were limited to England I fear that the Local Authority Associations (who cover Wales as well as England) would press that consideration of any radical proposals for Wales should be postponed until the Royal Commission has made its proposals for England. This would put back for several years reorganisation in Wales, where the multiplicity of weak local authorities is more serious than almost anywhere else.

7. Apart from this consideration, however, I would like to suggest to my colleagues that there would be more general disadvantages in appointing a Royal Commission. This piece of machinery is widely thought of as being appropriately used where difficult new territory has to be explored for the first time; in other applications its use is suspected of being a delaying or evasive tactic. After all the attention that local government reorganisation has received in recent years - for example the studies by the Acton Society Trust, the Bow Group and the Fabian Society, the work done by the Local Government Commissions and the experience gained in London, Rutland, Teeside, Tyneside, Manchester and Merseyside - we can hardly say that this is new territory which has to be explored by a Royal Commission before we can venture into it. Indeed the Minister of Housing's paper shows that he himself is not only fully aware of the problems and their urgency but has a good idea of the kinds of solution that would be appropriate.

Conclusion

8. I submit that the appointment of a Royal Commission would bring the useful action already in hand in this field to a halt and injure our reputation as an effective reforming and modernising Party. It would be better to press on with the work already in hand in Wales and elsewhere where it seems likely to yield good results. For the rest of the country consideration should be given to more direct means, such as the presentation of a White Paper containing reorganisation proposals which, after discussion with the local authorities and other concerned, could be incorporated in a Parliamentary Bill.

J.G.

Welsh Office, S.W.1.

20th January, 1966
FRANCE: GENERAL DE GAULLE'S FOREIGN POLICY
OVER THE NEXT TWO YEARS

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

General

There must be considerable uncertainty in any forecast of French policy over the next two years, particularly as General de Gaulle has made it clear in his writings that the leader must clothe his intentions in mystery. But, since British interests will be affected by French actions in a number of important ways, I think it worth attempting a forecast in order that we may forewarn ourselves if we can. I am therefore circulating this paper to my Cabinet colleagues as background against which to consider particular questions as they arise over the coming months.

2. The mainspring of General de Gaulle's policy is his belief that France must play a leading part in world affairs separate from and to some extent in conflict with the policies of the United States. In fact de Gaulle, and his propaganda, is working against United States interests around the world. In particular, he has come to insist with ever growing emphasis on the need for France to free herself from "subordination" to the United States in the NATO system. It is uncertain what his ultimate objective in world affairs may be, since he has defined it differently at different times; it may be that there is no positive objective other than the assertion of French independence of action in all fields. The following paragraphs describe probable French actions, which are of a largely negative nature, in the main areas of policy in which British interests are, or may be, closely affected. In many of these areas Gaullist France already stands aside from the Western Alliance, both in her political and defence philosophies and on specific issues, and her policy is already in varying degrees contrary to British interests.

North Atlantic Treaty Organisation

3. Since 1962 France has reduced bit by bit her participation in NATO and has frequently resorted to an attitude of obstruction. Her spokesmen have indicated that, while France is prepared to
accept some political consultation, she rejects co-ordinated policy or military integration. Recently General de Gaulle has taken the line that France will be out of NATO by 1969 at the latest, and that there can be no foreign troops in France not under French command.

4. French statements are contradictory in detail, but we must assume that some further step will be taken early in 1966 to start the withdrawal of France from the integrated command arrangements in NATO. This may initially take the form of proposing changes in the bilateral Franco-American agreements governing United States military establishments in France. Progressively, however, the General may demand the removal of integrated establishments, including NATO military headquarters, from France and the replacement of NATO as now constituted by bilateral arrangements. He may still accept some integrated command over Allied forces in Germany. If any agreement were reached within the alliance on giving the Germans a greater share in nuclear strategy (e.g., through the McNamara Special Committee), de Gaulle could well use this as a pretext for accelerating his action against NATO. He may, however, hope that by dint of sapping and mining during the next two years he may have so weakened the alliance as to make it unnecessary for him formally to terminate French participation in 1969.

5. We do not want to go through the expensive and time-wasting business of removing NATO from France, especially as we might want to return there if the General disappeared (and NATO might then again be welcome). But we cannot accept the break-up of the integrated structure; and, if necessary, NATO can survive without France.

6. We can bring this home to the General and to French public opinion by showing that we have plans to keep NATO in being whatever he does and that France will suffer more than NATO from a breach. If we cannot deter de Gaulle, we must minimise the damage. We can do this by playing things along, by taking care not to precipitate a crisis before the General does, by keeping any conflict on the narrowest possible front and generally by not presenting him with the initiative by showing too obvious an interest in his intentions. We have a number of legal and financial cards in our hand to enable us to spin out discussions if the French do move. It may not, however, be easy to embroil de Gaulle in interminable discussions if he does not wish to be embroiled. While therefore playing for time may be our most effective policy, we can only succeed in avoiding a French break with NATO if the General fails to pursue his policy with his customary vigour or if he dies or is ousted from power before his action is completed.

7. The principal consequence for Her Majesty’s Government of this policy is that within the next two years France is likely to have ceased to be an effective NATO partner. We may have had to take decisions about resiting (and paying our share in the resiting)
of NATO facilities and headquarters now in France, and to reorganise our military planning to take account of the gap in NATO caused by a French withdrawal. We shall probably have to review our relations with France over military installations, research and development and co-operation in the defence and weapons field. We shall also have to review our co-operation with France in other fields from the viewpoint of our security interests; it may, for example, become impossible to reconcile an exclusively bilateral co-operation with her over a range of technological and defence projects in the aviation, electronics and space fields, with our loyalty to NATO as a whole.

European Economic Community

8. The timing of the General's next moves regarding the European Economic Community (EEC) and the length to which he will be prepared to go towards breaking up the Community cannot accurately be forecast. He may very well be content to see the Community continue to exist as a purely trading arrangement, provided that it does not develop in the direction envisaged by the Treaty of Rome. De Gaulle may reckon that in the EEC context time is on his side. The longer he maintains the deadlock in the Community, the stronger may be the pressures on the Five to compromise, the harder it may be for them to present a united front against him, and the more likely will it be, so de Gaulle might argue, that the momentum of progress towards a supra-national Europe will be checked. He may therefore hope to keep the EEC simmering while he acts against NATO. But he cannot entirely control events himself. Now that he has unloosed this particular crisis, he probably has less freedom of choice over the timing of future moves than he at present appears to have in the NATO context. De Gaulle may in fact have to face the crunch in the EEC in 1966 when he is launching his attack on NATO. Whatever the ultimate objective in de Gaulle's EEC policy, he will not accept any "compromise" which does not provide for a common agricultural policy on French terms, a drastic reduction of the powers of the Commission, and agreement to eliminate majority voting. The effect would be permanent French veto on all aspects of the Community's life, including its relations with other countries and its policy towards the European Free Trade Association (EFTA) and the Kennedy Round.

9. The consequences for British interests of French policy in this field, if it is successfully pursued and if no British action directed to thwart it is taken, would be that at the very least the prospect of European co-operation in economic and trade matters will be greatly diminished. More serious still will be the political effect of France's challenge to the ideal of European unity. This could well lead to a sense of malaise and division in Western Europe and a general loss of self-confidence and cohesion. Probably the most dangerous possibility for our interests is that, in order to preserve somehow the form of the Treaty of Rome, the Five may be prepared to acquiesce in the treaty being further modified or
interpreted to suit French interests, which in most of the relevant questions are the opposite of our own. The result of this latter contingency, taken with the permanent French veto on new members, would be in effect to exclude Britain while de Gaulle remained in power from what would become an entirely French-dominated Community and probably also to encourage dangerous tendencies in Germany (see paragraphs 13 and 14 below).

**Economic**

10. De Gaulle’s economic policies will remain to our disadvantage over the next two years. Above all, it is very doubtful whether he cares whether or not the Kennedy Round succeeds; and unless the remaining countries of the EEC who are in favour of its successful completion are prepared to press him hard on this issue—and the signs so far are not very encouraging—de Gaulle can stop it succeeding. The failure of the Kennedy Round might well undermine the existence of the GATT and of the “most favoured nation” principle, which have formed the cornerstone of our commercial policy for the last 20 years.

11. De Gaulle has succeeded through the Yaoundé Convention in extending the preferential trading system which linked France and her former dependent territories to the EEC as a whole, although it works much more in favour of France than of her partners. This system is illiberal, in contrast to the sterling area, and constitutes a serious obstacle to the introduction of a generalised system of preferences for the developing countries at large.

12. In the monetary field de Gaulle’s determination to build up French gold reserves and to restore the independence of the franc have led him not only to reject explicitly the present foundations of international liquidity, but also to block progress towards establishing any alternative system which would meet the requirements for increased liquidity, not only of the United Kingdom but of the developing countries as well. He is therefore unlikely to take part in any exercise to support sterling. In so far as his attitude causes sterling holders to feel that the currency may be devalued, it is a potential menace to our balance of payments position.

**Germany**

13. The General seems to have abandoned his hopes of harnessing Germany to French ambitions. For the last two years he has made no effort to woo German opinion. He has in fact made a number of strongly anti-German remarks in private to those who are likely to pass them on. But he may still hope in the long run to persuade the Germans that their only hope of reunification lies in severing their close defence ties with the United States, abandoning any nuclear sharing arrangements in NATO and relying primarily on French nuclear power for nuclear protection. De Gaulle can blackmail West Germany by threatening to recognise the East German régime. These proceedings bewilder and worry the Germans who had valued the previous French policy of Franco-German reconciliation.
14. The consequences for Western Europe and for the Western world as a whole of the General's increasingly anti-German attitude may be serious. The main danger is that, by blocking the natural German aspiration to have a generally equal status within the Western Alliance, the General gives indirect encouragement to ultra-nationalist tendencies in Germany. Not only does he thus harm the Franco-German rapprochement which has been one of the most encouraging features of post-war Western Europe, but he gives the impression of wanting to keep Germany in a state of permanent inferiority. The resulting frustration in Germany could well lead to the most undesirable evolution of German political thought and might end by destroying all the progress made since 1945 of containing German ambitions within the Western defence, political and economic systems.

Nuclear sharing and disarmament

15. General de Gaulle will remain opposed to the idea of any nuclear power sharing its nuclear weapons with anyone. In particular, he will oppose nuclear sharing (even of a non-disseminatory nature) within the Western Alliance.

16. There is little prospect of France agreeing to sign a non-dissemination agreement. De Gaulle probably regards a wide dissemination of nuclear weapons as inevitable sooner or later. He would argue that the conclusion of a non-dissemination agreement would be of no value, since nothing affecting the peace of the world could be done except by agreement of the Five nuclear Powers, including China.

17. The French attitude towards disarmament questions is also negative and they have failed to take the seat reserved for them in the Eighteen-Nation Disarmament Committee at Geneva. French nuclear tests in the atmosphere due to be held from the middle of 1966 onwards are likely to attract widespread international condemnation. They might produce fall-out at levels which could threaten the safety of the Pitcairn islanders.

18. On all these related questions the French attitude is different from, and to a large extent opposed to, our own. This is likely to continue to be so.

Soviet Union

19. It is unlikely that General de Gaulle will want to carry his current rapprochement with the Soviet Union beyond a certain point. But it does seem likely that he will continue to promote an increasing convergence of French and Soviet positions over a variety of questions, particularly European questions; and de Gaulle and the Russians may be prepared to enshrine this convergence of view in a new Franco-Soviet treaty. An obvious example of this convergence is that both the Soviet Union and France appear to wish that Germany should remain divided and that France and Russia are at one (if for different reasons) in wanting to obstruct any arrangement for "nuclear sharing". Most important of all,
France and Russia both want to see the reduction or removal of the United States military presence in Europe, the break-up of the integrated Western Alliance in its present form, and the prevention of moves to strengthen the political and economic unity of the Western world. This convergence of policy also occurs at the United Nations and in the field of space and telecommunications. Other situations can be expected to arise, for instance in Indo-China, in which French and Soviet policies will both be designed in part to secure the removal of United States influence.

20. An underlying French calculation seems to be that if the United States presence can be greatly reduced in Europe, France will be able to play a dominant role in European affairs in association with the Soviet Union. France's role will, of course, be far less important whenever the United States and the USSR are working together to settle major international problems. The Russians for their part probably treat de Gaulle with some scepticism; he cannot affect the balance of real power in the world; his views on Communism as a transient ideology and the notion of chopping the Soviet Union in half at the Ural can scarcely endear him to Moscow. But the Russians no doubt reckon he can be used to their advantage.

21. If the General's policy is as outlined above, the main danger to our own interests is that it is designed to cause confusion and division within the Western Alliance and is operating against any fundamental improvement in East-West relations. Both in the defence field and in the field of foreign policy the General is in fact working on lines which are the opposite to our own.

China

22. General de Gaulle seems so far to have got less out of his China policy than he hoped. But there are parallels between the French and the Chinese positions in the world which he will go on trying to exploit to extend France's influence, particularly in the Third World. By helping to bring China on to the centre of the world stage—where, de Gaulle can claim, she properly belongs—he hopes to increase the leverage which France can exert both on the United States and the Soviet Union; to weaken the "double hegemony" of those two countries; to bring another Great Power into the forum of the United Nations; and to gain a powerful ally on a variety of international issues, e.g., the Test Ban Treaty, where France is at present isolated. In the short term, China's absence from the negotiating table can be used by the General as a convenient pretext for his refusal to fall in with a number of United States ideas, e.g., in the disarmament field, to which he objects.

British role

23. General de Gaulle has always found it difficult to fit the British into his scheme of things. His attitude to us is a mixture of admiration, resentment and contempt. We have no place, as equals, in his concept of Europe, although he hopes to make tactical use of us as a convenient makeweight against supranational ideas. He may
hope one day, as he has put it, to “have us naked”, so that Britain has no alternative but to follow France in a Europe she will dominate. Whether his true purpose is as extreme as this or not, he will certainly aim to develop to the utmost a Franco-British technical partnership, which will give France the know-how she must have if she is to enjoy any substantial technological independence of the United States over the next few years. De Gaulle would also not be sorry if the development of Anglo-French collaboration were to impair our relationship with the United States and impede our technical (and political) co-operation with other European countries. We shall have to watch the developing situation very closely in order to judge where our own interest lies and how we can best promote it over any given project or series of projects.

Conclusion

24. The inescapable conclusion is that in European questions General de Gaulle’s policies are likely to be harmful to British interests, even though in particular cases he may seek, or appear to seek, collaboration with us. The timing of his moves cannot be foretold partly because it must depend on the reactions of others. He may increasingly become an old man in a hurry, especially if his health deteriorates, and a determination to change the European scene in some marked way before he leaves it is likely to influence the timing of his actions. He is most unlikely to modify his fundamental aims in order to meet internal criticism.

25. How much of the policy outlined in this paper General de Gaulle will be able to carry out depends on factors which he cannot entirely control. Up to now, he has been able to exploit to the full a French power of veto, exercised as a member of international organisations, principally NATO and the EEC. To the extent that he withdraws France from effective membership of these bodies, so will he forgo this ability. France’s isolation will become increasingly obvious, as will the essentially negative aims of Gaullist policy. It will also become increasingly apparent to Frenchmen, as well as to those with whom he is dealing, that General de Gaulle does not have the capacity to shape the world as he would like it; that he is pursuing a policy which in many respects is beyond France’s natural strength. Following his relatively poor showing in the presidential election, what he says and does could well become subject to the law of diminishing returns, particularly with the approach of the general elections in April 1967, after which he cannot be at all certain of commanding a parliamentary majority. Above all, the damage General de Gaulle can cause to the Western world can be limited by the reactions of the other members of it.

26. We, for our part, will have to defend ourselves as vigorously as we can in every way open to us. We should avoid provocative tactics which would only allow General de Gaulle to blame us for the divisions which he himself will have brought about. We must remember that in the long run the French are natural if
difficult allies. But I am afraid that we must face the fact that we are for the present dealing with a régime under the control of a man whose attitude and intentions are in most cases hostile to our own. We must not allow ourselves to be used by the General in such a way as to harm our own real interests and those of the Western world as a whole. Our fundamental policy must be to prevent or limit the damage which France can do to the cohesion of the Western world, while keeping a chair for France against the day when she will, so I hope, be willing to resume co-operation with us and our allies.

M. S.

*Foreign Office, S.W.1.*

*25th January, 1966.*
At the Cabinet meeting on 20th January (CC(66) 2nd Conclusions, Minute 2), the Minister of Housing and Local Government was invited to consider further:

(i) the capital grant for highways improvement;

(ii) a separate grant for education.

A report by the Official Committee on Local Government Finance covering these two aspects is attached.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

23rd January, 1966
1. The Official Committee on Local Government Finance have given further consideration to the following questions raised in the memoranda recently submitted by the Minister of Housing and the Chancellor of the Exchequer to Cabinet (C(66) 1) and C(66) 2 respectively) which were remitted for further study by officials:

(i) Whether the capital grant for highways improvement and construction should be at a rate of 75 per cent (as it is under the present grants system) or at a rate of 50 per cent in common with that proposed for all capital grants under the new system.

(ii) Whether there should be a further ad hoc addition of £5 million in respect of highways maintenance in county boroughs to the sum agreed for the increase in the total Exchequer revenue grants in the first year of operation.

(iii) Whether there should be a separate grant for education or whether all assistance to education should be merged into the rate support grant (the distribution of which would of course be altered accordingly by the inclusion of educational factors in the distribution formula).

Highways Grant

2. A reduction from 75 per cent to 50 per cent was originally favoured by the Ministry of Transport as part of their plan to restore a better balance of responsibility as between Central and Local Government for expenditure on improvement of main roads in towns. However, in the light of discussions with local authority associations and further study of the effect of the proposal, particularly on the larger authorities, it is now clear that 50 per cent capital grants for this purpose would not be practicable. It is the view of the Ministry of Transport and the Ministry of Housing and Local Government that the incidence of expenditure on major road improvements in towns is so variable, both as to time and place, that it would not be possible to find a highways factor formula for inclusion in the rate support grant which would redistribute this grant in a way which would compensate the local authorities most heavily affected by the reduction from 75 per cent to 50 per cent. Some authorities would lose heavily whereas others would benefit excessively. Over a sufficiently long period of time, these ill effects might be corrected; but there would be great anomalies meanwhile.
To retain a 75 per cent capital grant for highways, together with a 50 per cent capital grant for other services, would mean an additional increase in Exchequer assistance of £27 million (at 1965 prices) in 1967/68, and this would increase in later years as the road programme expands. This is in addition to the large and rapidly increasing capital and revenue grants which are already provided for in the scheme.

The Committee were unable to agree on the extent of the risk of repercussion on the other services. The Department of Education and Science, which deals with over half of the capital expenditure in question, takes the view that once there is so important an exception to the general rule of 50 per cent there will be pressure on the part of the Educational Services to be regarded as a further exception: the argument, based on distributive grounds, advanced in favour of the 75 per cent rate for highways might be said to apply with similar force to expenditure on education, particularly further education. The Home Office and Ministry of Health feel that there would be less immediate pressure as far as their services are concerned, although in due course a demand for equal treatment might develop. The Ministry of Housing and Local Government take the view that the distributional argument is not as valid for other services as it is for highways, and that it would be possible to defend a difference between maintaining an existing grant at 75 per cent and instituting entirely new ones at 50 per cent. The Scottish Office envisage no difficulty over a 75 per cent highways grant and a 50 per cent grant for other services.

The expenditure on roads would account for about a third of the total of the amount disbursed by the Exchequer as capital grant. If a rate of 75 per cent for highways were introduced in conjunction with a 40 per cent rate for other services, the call on the Exchequer would be no more than with a common rate of 50 per cent. However, the arguments about repercussions obviously apply with greater force to this proposition. The Committee would not regard this solution as practicable.

The Committee considered also the implications of changing the scheme so that there would be no new capital grants for education, health, police stations etc). This would not necessarily affect the total of local authorities' capital expenditure. Their borrowing requirements would be higher than under the original scheme with capital grants, but the higher loan charges would be eligible for Exchequer assistance via the rate-support grant. As between the original 50 per cent capital grant scheme and the 75 per cent highway grant with no new capital grants, any extra charge on the level of local rates would be very small in relation to the figures under consideration in this paper. It would on the other hand substantially reduce the immediate charge on Departmental Votes.
The Department of Education and Science see no particular advantage in a capital grant system from their Departmental point of view: the Ministry of Health favour the capital grant system on control grounds; the Scottish and Welsh Offices would prefer to see the capital grant element kept in the scheme.

The capital grant element of the original scheme did not appear to attract the local authority associations strongly. On the other hand, there might clearly be some embarrassment in withdrawing a concession already proposed even in order to meet then in maintaining the 75 per cent highway grant; and they might in any case ask for assurances about access to the Public Works Loans Board. It might perhaps be wise not to take a final decision until the associations' attitude had been tested.

The points for decision by Ministers are—
(a) whether the highway grant should be maintained at 75 per cent;
(b) if so, whether—
(i) an extra Exchequer cost of £27 million at 1965 prices in 1967-68, and rising in subsequent years, should be accepted, or
(ii) the new capital grants should be dropped from the scheme.

£5 million Assistance in respect of Highway Maintenance in County Boroughs

Hitherto the Country Boroughs and the London County Council have never had any assistance towards highway maintenance. This expenditure, like all other local authority expenditure which has not previously been specifically grant-aided or included in the general grant, will now come into the calculation of the total of Exchequer revenue grant.

The question is whether there are sufficient grounds to distinguish this expenditure from others which will now rank for grants for the first time; and so to justify an ad hoc addition of £5 million to the £30 million in the first year (£60 million in the second year, etc.) which is the additional transfer to local authorities on revenue account under the new scheme.

The case for doing so is that if such an addition were made, it would be possible to assure the other local authorities that the county boroughs were not in any possible sense getting this assistance for highway maintenance at their expense. The case against doing so is that it increases the Exchequer cost by £5 million a year, over and above the level of £30 million which is required to meet the objectives of the scheme for the distribution of the burden of local expenditure between the ratepayer and the taxpayer.
Education

4. The Educational Departments are satisfied that there are no technical or administrative advantages in maintaining a separate grant for education under the new Grants System. A 50 per cent education grant would not provide the whole of the Exchequer assistance for educational expenditure which the scheme produces; some of it would emerge as rates-support grant. It would be impossible, therefore, to plan local authority educational expenditure by reference to the separate education grant alone.

It is agreed that if the specific grant for education were raised to 60 per cent, the new grants system as a whole would not be viable because there would be too little available for distribution via rates-support grant. The local authority associations do not appear to favour a separate education grant, the workings of which they feel will be misunderstood.

It is agreed that there are no administrative or technical advantages, or reasons of educational policy, for retaining the idea of a separate education grant.

Cabinet Office, S.W.1.

24th January, 1956
C(66) 19
24th January, 1966

CABINET

PUBLIC EXPENDITURE 1966-67: OVERSEAS INFORMATION SERVICES

Note by the Chief Secretary, Treasury

In accordance with the decision of the Cabinet on 20th January (CC(66) 2nd Conclusions, Minute 2) I circulate a paper by officials showing what cuts would be needed to reduce the overseas information estimates from £31.6 million to £30.6 million.

The paper was necessarily drafted at short notice. Naturally in the time available neither I nor the other Ministers concerned would wish to be committed to all the comments expressed in it. I hope, however, that the figures in Annex B will give the Cabinet the facts on which to base a decision.

J. D.

Treasury Chambers, S. W. 1.

24th January, 1966
This paper shows, at Annex A, the broad breakdown of expenditure which would be covered by a total provision of £31.6 million for overseas information next year, and at Annex B the cuts needed to reduce the total to £30.5 million, taking into account the Cabinet's wish to avoid cuts in broadcasting expenditure or in activities which promote exports.

2. The draft Estimates of £32.6 million included £1.2 million of risen costs, mostly due to pay awards. Departments had made substantial economies to accommodate these risen costs, the Montreal Exhibition and the reconstruction of the Middle East Relay Station within the total of £32.6 million.

(a) The further cuts have been spread over all forms of information activity in such a way as to do least harm. So far as broadcasting is concerned a reduction of £519,000 has been achieved by omitting provision for certain proposed new expenditures not of high priority, but without cutting into existing services; and by reducing the provision for rebuilding the Middle East Relay Station on Masirah Island in the light of the latest estimates of what is expected to be spent.

(b) The provision for the British Information Services (BIS) abroad has been reduced by £364,000 from a total of £9.2 million. We have sought to avoid cuts in the fields most directly concerned with export promotion. But there is no clear distinction between export promotion and other information work; the same men and media serve both. Any reduction in the scale of information activity must therefore affect export promotion.

3. Annex B to this paper showing the effect of a further cut from £31.6 million to £30.5 million also calls for some explanatory comment. The saving of a further million could be achieved by the suspension of all work on the Middle East Relay Station in 1966-67, the deferment of further BBC plans for improving their overseas services and the abolition of e.g., the Hebrew and Albanian Services, coupled with further cuts of £150,000 in provision for the British Council and of £180,000 in provision for BIS. But, if no further cuts were made in the estimates for the BBC External Services, an additional sum amounting to £550,000 would have to be found by the British Council and the Information Services. Dividing this sum equally between them (since there has been insufficient time for any detailed study of relative priorities) the total cut which the British Council would have to bear, as compared with the figure of £10.4 million included in the original £32.6 million would be £645,000. Corresponding figures for BIS would be £9.2 million and £850,000. By the nature of the British Council's work virtually the whole of their cut would have to fall on overseas posts and would involve withdrawal from a number of countries, large reductions in locally engaged staff and probably some redundancy among established staff. This would necessarily affect the Council's educational work in some developing countries. In the case of the Information Services most of the cut would have to fall on the production of material by the COI, but the scope for economies here is limited by the need to provide an adequate service for those parts of the information machine overseas which cannot safely be cut. There would thus have to be a substantial closure of information posts overseas.
OVERSEAS INFORMATION ESTIMATES 1966-67

Broad Breakdown by Services of a Total Provision of £31.6 million

(All figures in £000)

<table>
<thead>
<tr>
<th>Service</th>
<th>Recurrent operations</th>
<th>Capital and Non-recurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadcasting</td>
<td>9,208</td>
<td>1,799</td>
<td>11,007</td>
</tr>
<tr>
<td>British Council</td>
<td>9,436</td>
<td>763</td>
<td>10,199</td>
</tr>
<tr>
<td>Commonwealth BIS*</td>
<td>3,934</td>
<td></td>
<td>3,934</td>
</tr>
<tr>
<td>Foreign BIS*</td>
<td>4,404</td>
<td></td>
<td>4,404</td>
</tr>
<tr>
<td>Colonial BIS*</td>
<td>466</td>
<td></td>
<td>466</td>
</tr>
<tr>
<td>Miscellaneous BIS* / (BOT, ODM etc.)</td>
<td>62</td>
<td></td>
<td>62</td>
</tr>
<tr>
<td>Montreal Exhibition</td>
<td>-</td>
<td>1,548</td>
<td>1,548</td>
</tr>
</tbody>
</table>

27,510  4,110  31,620

* "British Information Services" - including the Votes of the sponsoring overseas Department and its share of COI and HMSO services.

/ Board of Trade, ODM staff in London doing Oversea Information work.
ANNEX B

OVERSEAS INFORMATION ESTIMATES 1966-67

Additional Cuts required to Reduce Total Estimates to £30.6 million

A. Cuts Producing £340,000
(i.e., leaving balance to be found by postponing rebuilding the Middle East Relay Station (£500,000) and cuts in BBC operations and new services (£160,000).

(i) British Council

<table>
<thead>
<tr>
<th>Service/Activity</th>
<th>£</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air conditioning of premises, Bangkok</td>
<td>13,000</td>
<td></td>
</tr>
<tr>
<td>Assistance to Schools: Cyprus and Nepal</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Courses Department</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Withdrawal from Congo (Leopoldville)</td>
<td>19,000</td>
<td></td>
</tr>
<tr>
<td>HQ Supplies and Services</td>
<td>115,000</td>
<td>160,000</td>
</tr>
</tbody>
</table>

(ii) BIS

Films, TV Newsreels, additional cut to make 5 per cent cut on current provision
Newspapers, press services
Sponsored Visitors, additional 10 per cent cut making 20 per cent cut on current provision
Small Exhibitions Fund (Trade Fairs and British Exhibitions not financed by BOT), additional cut down to 55 per cent of current provision
Staff Cuts: equivalent of 10 UK-based Information Officers

Subtotal 340,000

B. Further Cuts to Produce Balance of £660,000
(assuming no cuts in broadcasting expenditure)

(i) British Council

(a) Deferment of capital provision for premises in New Delhi

(b) A selection among the following:

- Withdrawal of all Council activities from:
  - Colonial: Barbados, British Honduras, Fiji and South Arabia (36,000)
  - Commonwealth: Jamaica, Trinidad, British Guiana (58,000)
  - Foreign: Algeria, Cambodia, Colombia, Vietnam (96,000)

Reductions in HQ Supplies and Services (135,000)

(ii) BIS

Additional cut: films acquired from industry and newsreels
Sponsored Visitors, Additional 10 per cent cut to 70 per cent of current provision
20 per cent Cut: Library Supplies and Presentation Copies of British Periodicals
Small Exhibitions Fund, additional cut down to 40 per cent of current provision

Subtotal 340,000
Printed Material including cuts in whole or in part among the following magazines:

<table>
<thead>
<tr>
<th>Magazine</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Today</td>
<td>£230,000</td>
</tr>
<tr>
<td>Anglia (for Russia)</td>
<td>£70,000</td>
</tr>
<tr>
<td>Good Business</td>
<td>£20,000</td>
</tr>
</tbody>
</table>

(iii) Balance | £25,000

Grand Total £1,000,000
24th January, 1966

CABINET

INDUSTRIAL REORGANISATION CORPORATION: WHITE PAPER

Note by the First Secretary of State and Secretary of State for Economic Affairs

I circulate for the information of the Cabinet the text of a White Paper on an Industrial Reorganisation Corporation which is to be published on Tuesday, 25th January.

C.E.

Department of Economic Affairs, S.W.1.

24th January, 1966
Our future prosperity depends on our ability to bring about a fundamental improvement in the balance of payments. If we are to succeed in this, new initiatives are required to enable British industry to meet more effectively the growing competition it will face in world markets. The new system of incentives recently announced by the Government will provide a powerful stimulus to modernisation and investment in key sectors of the economy but further changes in the structure and organisation of industry are required to make this fully effective.

2. The need for more concentration and rationalisation to promote the greater efficiency and international competitiveness of British industry, which was emphasised in the National Plan, is now widely recognised. With the co-operation of financial institutions, many industries have already substantially altered their structure and organisation through mergers, acquisitions and regroupings. This process has been accelerating in recent years and may be expected to continue. Nevertheless, the pace and scale of change do not yet match the needs of the national economy.

3. Many of the production units in this country are small by comparison with the most successful companies in international trade, whose operations are often based on a much larger market. In some sectors the typical company in Britain is too small to achieve long production runs; to take advantage of economies of scale; to undertake effective research and development; to support specialist departments for design and marketing; to install the most modern equipment or to attract the best qualified management. Moreover, large groups may often have been built up haphazardly or solely to achieve wide diversification and may not therefore be organised to secure full efficiency in current conditions. Size and efficiency do not, of course, always go together - there are efficient small companies and inefficient large ones. What is needed is to create a structure which will enable us to make the most effective use, in the years ahead, of our resources of skill, management and capital.

4. There is no evidence that we can rely on market forces alone to produce the necessary structural changes at the pace required. Some of the industries most in need of rationalisation have an in-built tendency to stay as they are. Either there are a few large firms which are tempted to live and let live; or there are a number of small ones, none of which alone is strong enough to achieve the scale of operations needed for international competition. Moreover, some mergers simply lead to a concentration of ownership without securing a more effective deployment of the assets of the merged companies and result in loosely-knit groups of comparatively small production units ranging over a wide variety of manufacturing activities.

* Cmd. 2874
‡ Cmd. 2764 (Chapter 1, paragraph 37)
5. Although there is now a large number of institutions which can provide specialist services to meet the financial and other needs of industry, there is no organisation whose special function is to search for opportunities to promote rationalisation schemes which could yield substantial benefits to the national economy. Merchant banks and issuing houses carry through a great many mergers every year, but they can in general only act at their clients' request. Desirable regroupings fail to take place through lack of initiative and sponsorship, or because, when opportunities arise, there is no one ready to grasp them. The Government consider that this gap in the institutional framework needs to be filled and they propose to set up a new statutory body for the purpose, to be called the Industrial Reorganisation Corporation. The necessary legislation will be introduced as soon as possible.

6. The Corporation will seek the fullest cooperation from industry and existing financial institutions, and schemes which it initiates will, whenever possible, be put into effect either through the normal machinery of the market or in close collaboration with the market. It will be able to acquire a stake in the ownership of new groupings or enterprises it helps to create or to expand. It will not, however, act as a general holding company and will be able to dispose of its investments when the profits of rationalisation have been assured and it can do so to advantage. The faster it turns over its capital, the greater will be its capacity to promote the objects for which it is being set up.

7. The Corporation will give priority to schemes of rationalisation and modernisation which offer good prospects of early returns in terms of increased exports or reduced import requirements, and will have regard to the regional aspects of the Government's policies for economic development. It will not support ventures which have no prospect of achieving eventual viability.

8. In identifying the sectors where early action is needed, the Corporation will look for advice and suggestions from industry and the City, from Government departments and the Economic Development Committees. It will effect rationalisation and reorganisation by whatever method best suits the circumstances of the particular case. In many instances its role will be to act as catalyst, providing initiative and ideas, helping the companies concerned and their advisers to work out practical schemes and arranging for any necessary expert services to be made available. It will pay particular attention to the management needs of new groupings.

9. In order that the Corporation may be able to operate on an effective scale and to promote a number of schemes simultaneously, it must have large financial resources at its disposal. It will need funds to help to put together new groupings on a sound economic basis. It may also need to provide capital for new projects or expansions of special importance to the economy. Some new groupings may initially have difficulty in raising finance, especially in the form of medium-term loans, and the Corporation will have to be in a position to make capital available for expansion of research,
development and design facilities or for investment in new plant, especially cost-saving machinery of modern design. Most rationalisation schemes will of themselves remove the main impediments to the introduction of modern equipment, but in some instances the Corporation may need to take special steps to ensure that particular types of advanced machinery are installed. For this reason it will be empowered to hold physical assets, so that in appropriate cases it will be able to purchase machines and make them available to new groupings, by leasing them or by making other suitable arrangements. The Corporation will co-operate with the Ministry of Technology and with the National Research Development Corporation, which may be able to help it to make rationalisation more effective in industries which are passing through a period of rapid technological change. It will also co-operate with the Ministry of Public Building and Works in matters affecting the construction industry.

10. The terms on which it will be appropriate for the Corporation to make finance available will vary from case to case and it will need to be able both to make loans and to take up equity holdings. The Government propose that it should be given, in the first instance, the right to draw as needed up to £150 millions from the Exchequer. It would be required to make fixed interest payments on part of this; the remainder would take the form of Exchequer Dividend Capital, the dividend on which would be settled by reference to the profits available after the fixed-interest borrowing had been serviced and adequate provision made for reserves.

11. Many of the rationalisation schemes sponsored by the Corporation will result in mergers which come within the scope of the Monopolies and Mergers Act, 1965. As the Government made clear when the Act was introduced, it is no part of its purpose to hold back mergers which are desirable in the national interest. Arrangements will therefore be made, so that companies participating in the Corporation's schemes can be certain, before schemes are completed, that the resulting mergers will not be referred to the Monopolies Commission.

12. These proposals are an integral part of the Government's plans for modernising the economy and complement the new system of investment incentives recently announced. The Government consider that, in co-operation with Industry and the City, the Corporation will be able to secure a lasting improvement in the structure and competitive strength of British Industry.
C(66) 20
26th January, 1966
G6 C(66) 20 COPY NO. 66

CABINET

LOCAL GOVERNMENT FINANCE - ENGLAND AND WALES

Memorandum by the Minister of Housing and Local Government

At their meeting on 20th January (CC(66) 2nd Conclusions, Minute 2) the Cabinet approved proposals for determining the aggregate of Exchequer assistance to local authorities to yield an increase in grants of the order of £30 million in the first year, and agreed that all or most of the additional money should be applied specifically to the relief of domestic rates. Other points raised in my memorandum C(66) 1 were referred to the Official Committee on Local Government Finance and a report from that Committee is before the Cabinet (C(66) 17).

2. I have had discussions with the Chief Secretary, Treasury, and the Minister of Transport in an attempt to narrow as far as possible the issues in dispute. The position, as I understand it, is as follows.

Education grant

3. It is agreed that there are no administrative or technical advantages in having a separate education grant; what remains is a straight question of politics. Will an education grant equal to only 50 per cent of total expenditure - no higher rate is possible - be favourably or unfavourably received? It is a long way from what we promised in our manifesto and the local authorities for the most part view it as a sham. In my opinion a separate grant in these circumstances would be a political liability, not an asset.

Highways grant on maintenance of roads in county boroughs

4. In C(66) 1, the Minister of Transport and I asked the Cabinet to agree to the inclusion of an additional flat £5 million in the aggregate of grants in respect of maintenance of highways in county boroughs and Inner London (never previously grant-aided). While we regard the case for this addition as incontrovertible, we are prepared, in view of the Chancellor's difficulties, to agree that the £5 million should be found from within the £30 million, if agreement can be reached on the other points.

Outstanding points

5. Two major points of difficulty remain:

(i) should the extra assistance to local authorities be reduced because concentrating that assistance on the domestic ratepayer will increase the net cost to the Exchequer?
(ii) if the rate of grant in aid of major improvements to main roads is kept at 75 per cent, must that be at the expense of the new 50 per cent capital grants which we have been proposing to introduce for other services?

Costs to Exchequer of concentrating aid on domestic ratepayer

6. As regards (i), the position is that every £5 million of grant which is earmarked for the domestic ratepayer (instead of going to relieve ratepayers at large) will increase the net cost of the scheme to the Exchequer by about £1 million. That is because a larger share of the rates will be borne by commerce and industry which can claim them as an expense for tax purposes, and because rates on Crown property will be increased. The Chancellor argues that if, as I propose, £25 million is devoted to the domestic ratepayer (leaving £5 million for the maintenance of urban highways) the additional assistance to local authorities must be reduced from about £30 million to about £25 million so that the net cost to the Exchequer may remain unchanged. This of course would mean that only £20 million would be available for the domestic ratepayer.

7. This I find intolerable. In fixing on something like £30 million as the added money in the first year we were thinking in terms of how much extra local authorities would get, not of what it would cost the Treasury to give it. While no formal proposals on this point have been put to the local authorities, they know that we have been thinking in terms of an increase in grant of about £30 million in the first year. To come forward now and say that, because the method of distribution now proposed will cost the Exchequer more, there is to be only £20 million for rate relief plus £5 million for highways, would produce a very sharp reaction.

Capital grants

8. On (ii) there is, I think, now general agreement that because of the high cost and very uneven incidence of major road schemes it is out of the question to reduce the present 75 per cent grant to 50 per cent so far as major improvements on main roads are concerned. What is in dispute is whether this necessarily means withdrawing our previous proposal - already put to the local authorities - to introduce 50 per cent capital grants for a range of services not at present receiving them. The Chancellor says, in effect, that it does, because he insists that, if the highway grants stay at 75 per cent, there must be a corresponding reduction elsewhere; and we are agreed that, though reducing the other capital grants to 40 per cent would offset the extra cost, this is not a tenable line. It is 50 per cent or nothing.

9. Retaining the 75 per cent grant would add about £27 million to the capital grants in the first year, against which there would be some saving in the revenue grants. The Chancellor is further afraid that the Government would not be able to resist any pressure that might develop over the years to increase the other capital grants to 75 per cent. But most of those in closest contact with local government think that it would be perfectly possible to confine 75 per cent grant to highways, both for historical reasons and because no other service produces such individually expensive schemes by relatively few local authorities at any one time.
10. It is true that in the discussions local authorities have been wary of the proposed new (50 per cent) capital grants, fearing that these would mean increased Government control. If I find that they are unenthusiastic about them, I would not pursue them. But if in my further discussions I find that the authorities want to keep them, I do not think we can withdraw them.

Conclusion

11. So what it comes to is this. Following our decision that most of the extra money going to local government should go to the domestic ratepayer, the Chancellor wants to reduce the total because this method of distribution will cost him more. And while accepting, as is now agreed, that 75 per cent capital grants must be retained for major highway improvements, the Chancellor wants to withdraw the 50 per cent capital grants already offered for other services.

12. I think that if I were to put these propositions to the local authorities the negotiations might break down completely. We have to remember that our proposals seem to the authorities completely inadequate viewed not only against our promise to transfer a substantial part of the burden from rates to taxes, but also against an annual rise in rates of the order of 10 per cent.

R.H.S.C.

Ministry of Housing and Local Government, S.W.1.

26th January, 1966
CABINET

LEGISLATION ON THE DOCKS

Memorandum by the Chancellor of the Exchequer

A Committee of Ministers has been considering the content of the legislation for improving the efficiency of the docks which was foreshadowed in The Queen's Speech. The Cabinet will wish to be aware of the conclusions which we have reached.

The Bill will cover those matters arising from the Devlin Report on dock labour which require legislation and changes in the present legislation on port organisation which stand in the way of securing greater efficiency.

Implementation of the Devlin Report

3. The Devlin Report recommended the introduction of full decasualisation for all dock workers. A drastic reduction in the number of port employers is essential for full decasualisation, and voluntary action to reduce the number is proceeding with considerable success. But voluntary action will not be sufficient. It is therefore intended to introduce by legislation a system for licensing port employers to ensure that the necessary reduction takes place and thereafter to keep control over the number of port employers.

4. The licensing authorities will be port authorities designated by the Minister of Transport. This is a departure from the recommendations of the Devlin Report but there is general agreement that this will be the best course. It will be an essential feature of the system that the employers licensed to operate in a particular port must between them offer permanent engagement to the whole of the regular labour force in the port. Therefore conditions will be attached to licences specifying the numbers to whom each employer will be required to offer permanent engagement. There will be arrangements for transfers between employers to meet fluctuations in work.

5. Employers will have a right to appeal to the Minister against the refusal of a licence by the port authority or against the conditions attached to the licence. Since the port authority will usually be an employer of labour itself, employers will also be given the right to appeal against the allocation of labour by the licensing authority to itself. The National Ports Council will also have the right to make objections to the Minister against a port authority's proposals.
6. The Devlin Report also recommended a radical improvement in welfare amenities for dock workers. Legislation is needed to ensure effective action in this field. Standards of amenities have already been agreed by the Dock Labour Board and a comprehensive survey of what needs to be done to achieve these standards is being carried out. The legislation will place a responsibility to provide the proper amenities on the person, firm or authority which manages or controls a dock, wharf or quay. This means that employers who own their facilities will have to provide the amenities; in other cases the port authorities will be responsible. The grant of a licence to a port employer may therefore be made conditional on his providing specified amenities, and suitable conditions may be imposed. If a port authority or a port employer appears to the Dock Labour Board to fail to make the necessary provisions they will report this to the Minister of Labour; and the legislation will empower the Minister to issue a direction for the carrying out of the work. If they fail to comply with the direction the Dock Labour Board will carry out the work and recover the cost.

7. These provisions will apply to all ports in the dock labour scheme. As regards the ports - mostly very small - which are outside the scheme, there will be pressure for action on a voluntary basis. At a later stage, however, it may be desirable to make Regulations under the Factories Act which would apply to all ports.

Proposals for ports reorganisation

8. We have agreed that further steps are needed to speed up the reorganisation of the ports which has been begun under the terms of the 1964 Harbours Act which we welcomed in general during its passage. That Act set up a National Ports Council which is at present engaged among other matters in the formation of new authorities covering the ports in each major estuary. But we consider that additional steps are needed. We must make faster progress in reorganisations and port groupings. Port authorities themselves need additional powers. We need a more positive central control of investment. We also need to try to secure more effective management of the ports.

9. To achieve these objectives we propose to include in the legislation the following major provisions:

(i) To give harbour authorities powers to acquire land and facilities owned by independent undertakings where this is necessary to improve the efficiency of the port. This proposal is intimately related to the proposal for the licensing of port employers. The port authorities must be able to bring about greater concentration and co-operation of port working and to have compulsory powers for this purpose.

(ii) To give harbour authorities powers to carry out any activity likely to promote port efficiency. In particular, this will give them power to operate (or participate in operating) inland clearance depots. These are essential if we are to reduce congestion at the ports.
(iii) To give the Minister of Transport power to direct the National Ports Council to submit proposals for particular schemes of port reorganisation. At present the initiative has to come either from a port authority or the National Ports Council. Although it is probable that schemes will come forward where they are needed we cannot be wholly sure of this. The Minister must have powers to secure progress in particular schemes.

(iv) The Minister of Transport should be given powers to settle the lines of the investment progress of independent harbour authorities. At present the Minister has negative powers of control over them; he can only refuse to permit investment. The present proposal would bring all the major independent ports more or less into line with the British Transport Docks Board so far as concerns the general control of major capital investment.

In addition to these major provisions there will be a number of smaller improvements in the present arrangements, including provision for tidying up the arrangements under which the Minister of Transport can make loans to port authorities and for the National Ports Council to join a research association and to engage in research.

10. We believe that these changes in the position of the port authorities and port employers taken together will result in a major improvement in the operation of the docks. A study of the implications of even more substantial changes in the ownership and reorganisation of the docks is going forward. But we believe that the action set out above is necessary whatever further measures may be required at a later date.

L. J. C.

Treasury Chambers, S. W. 1.

31st January, 1966
1st February, 1966

CABINET

PUBLIC EXPENDITURE: ROUNDOFF OF DEFERMENT ARRANGEMENTS

Memorandum by the Chancellor of the Exchequer

I recently put to the Committee on Public Expenditure certain proposals for the modification of the arrangements announced last July which were designed to slow down the rate of expenditure on capital projects and on stores and equipment in the public sector. Those proposals were agreed by the Committee and, subject to the agreement of Cabinet, I propose to make an announcement in the terms of the draft annexed to this paper. At the same time as the announcement is made revised instructions would be sent by the Treasury to Government Departments, and in due course circulars would be sent, as necessary, to local authorities. The 1966-67 Estimates have been drawn up and agreed on the basis of these proposals.

Capital Expenditure Projects

2. Part of the measures announced last July was the deferment for six months of all capital expenditure projects other than those in certain exempted classes. This was a continuous rolling forward by six months until further notice of all projects affected. The total reduction in expenditure resulting from this is probably of the order of £200 million, of which about £60 million occurs in 1966-67. It is essential to retain the greater part of the benefit of these savings.

3. The arrangements announced in July and still in force were from the outset in a form in which they could be maintained only for a limited period. They require the starting dates of all projects not exempt to be deferred for six months. Thus, projects due to start in September 1965 have been deferred to March 1966; those due to start in December 1965 have been deferred to June 1966; and those due to start in March 1966 (apart of course from those already deferred from September 1965) will, on present form, be deferred to September 1966; and so on.

4. This arrangement could be maintained only for so long as the Departments concerned had as at last July lists of firm starting dates for all projects. We are now entering a period for which firm starting dates did not exist for all projects and Departments are running into some difficulty on this account in operating the arrangements.
5. It is therefore necessary to substitute for these arrangements a method of control by expenditure limits. Under this each Department will be required to limit its capital expenditure in 1966-67 as follows. It will work out the expenditure which would have arisen in that year on the projects deferred in the first six months of the operation of the scheme and it will deduct that sum from whatever was the previously planned capital expenditure limit. The resulting sum then becomes the upper limit for permissible expenditure in that year, and within that limit Departments will be able to re-programme investment as they see fit. This principle has been applied in preparing the 1966-67 Estimates, and I have agreed the method of its application with the Ministers concerned as necessary.

6. There is no need to take any decision now about 1967-68. It will however be necessary for Departments to ensure that for the moment their expenditure commitment for that year is not allowed to go beyond the level which would be arrived at if the procedure described in paragraph 5 were applied to 1967-68. In this way we can keep the door open for a decision at a later stage.

Local Authorities

7. The arrangement described in paragraph 5 would apply not only to Departments' own spending but also to their control of capital expenditure programmes by local authorities. For miscellaneous local authority projects outside the main programmes Departments must continue to give loan sanction and grant only for projects which are urgently required.

8. Expenditure on lending for house purchase should also continue to be restricted to £130 million a year from April 1966. Some adjustment may however be needed in the allocation to particular authorities of this total sum and the Ministers concerned will be consulting each other about this.

Stores and Equipment

9. Where deferment of purchases has led to a reduction in stocks Departments should endeavour to keep them at their present level, and should only raise them where it is really necessary. In any case Departments should as far as possible continue to avoid any building up of reduced stocks before the end of 1966-67.

Announcement

10. I attach a draft of a Statement which I would propose to make on this subject in the House on Tuesday, 5th February.

L. J. C.

Treasury Chambers, S.W.1.

31st January, 1966
On 27th July last I announced the adoption by the Government of certain measures. Some of these affected public investment and expenditure.

2. These measures have achieved their purpose. In particular, the rate of expenditure on capital projects has been appreciably reduced. I estimate that in the six months since the arrangements were announced about £200 million worth of capital projects have been deferred for six months. I am grateful to all those who have made the result possible. There can be no doubt that this deferment has reduced the pressure of demand below the excessively high level which it would otherwise have reached, and so has contributed to the improvement in our balance of payments.

3. The time has now come for the system of deferment to be replaced by normal methods of control. The Government has therefore fixed new annual expenditure limits, and from now on Government Departments will be working within these new limits, both in their own spending and in their control of capital expenditure programmes by local authorities. They will be able to re-programme their investment as may be necessary. In fixing these limits account will be taken of the effects of deferment. Estimates for 1966-67 are being prepared on this basis.

4. Circulars will be sent to local authorities, as necessary, notifying them of the new arrangements. Loan sanction and grants for miscellaneous local authority projects outside the main programmes will continue to be given only for projects which are urgently required.
7th February, 1966

CABINET

PUBLIC EXPENDITURE; PLANNING AND CONTROL
PROOF WHITE PAPER

Note by the Chancellor of the Exchequer

My colleagues will recall that on 3rd December last year I circulated a paper (C(65) 169) to which was attached a draft White Paper on the Planning and Control of Public Expenditure.

2. This was discussed at a Cabinet meeting on 7th December (C(65) 68th Conclusions, Minute 5). The Cabinet generally welcomed the proposal to publish the White Paper as a contribution to public understanding of the machinery of control now operated by the Government and of the need to relate total expenditure in any one field to expenditure in other fields; but felt that it would be preferable to publish it at about the same time as the Estimates for 1966-67 were published.

3. I am now circulating for the information of my colleagues a revised version of the White Paper which I propose to publish at the same time as the Vote on Account, on 21st February. Apart from the excision, in deference to the views expressed at the Cabinet meeting on 7th December, of the Appendix on the criteria for proposals for civil and technological projects, the only major change since the last version is the addition of a new section (Part VIII) dealing with 1966-67. The only other changes made are such as are necessary to bring various references and figures in the White Paper up to date; some of the figures are still not final. The publication of the public investment figures for 1966-67 and 1969-70 in Tables 5 and 6 should help to reassure the construction industry of the future scale of public sector demand.

4. In order to meet the printing timetable for publication on 21st February, the text must be finalised within a week, and I would be grateful if my colleagues could let me have any amendments by Thursday, 10th February.

L. J. C.

Treasury Chambers, S.W.1.

7th February, 1966
PUBLIC EXPENDITURE: PLANNING AND CONTROL
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I—Introduction

One of the Government’s first tasks when they came into office was to examine the prospects and priorities of public expenditure. There were large expansion programmes in progress for the various public services, which had been published in outline in December, 1963*. These did not, in the Government’s view, provide adequately for the nation’s social or economic needs. Even so, they would have fully absorbed for the years ahead the future growth of revenue at the rates of taxation then ruling, even if the nation had managed to achieve a regular rate of growth of the gross national product as high as 4 per cent a year.

2. The Government began a review of public expenditure in order to redeploy for more productive purposes and for the strengthening of the balance of payments the resources which were engaged on work which the Government considered to be of low economic priority; to give effect to the Government’s own concepts of social priority; and to bring the growth of public expenditure into a sounder relationship with the development of the national economy.

3. The process of reshaping involved:

(a) A decision to limit the total growth of public sector expenditure to an average of 4½ per cent a year at constant prices from 1964-65 to 1969-70: this was subsequently confirmed as part of the National Plan.†

(b) Within this total, a long-term allocation of resources to each of the main public services to provide the quantitative framework for their development.

(c) A strict review of individual programmes, in particular of defence.

(d) The preparation of Estimates within specified limits so as to ensure their consistency with (a) and (b).

(e) A review of the investment of the nationalised industries to fit in with the National Plan.

(f) More effective implementation of the programmes and an improvement of financial control, to get better value for money.

4. This White Paper describes the first results of this reshaping, the procedure which the Government adopted to carry it out, and the methods by which the Government intend to continue the process in the future to enable the public services to make the best possible contribution to the development of the national economy and to provide for the most important social priorities, the programmes of social improvement and economic expansion going forward together, each dependent upon the other, as part of the National Plan. The relevant statements of Government policy appear in Appendix I.

† "The National Plan", chapter 18, para. 3. Cmnd. 2764 (September, 1965).
II—Aggregate of Public Sector Expenditure

5. The Government's object throughout has been to look at public expenditure as a whole; to make the best possible estimate of the cost when each question has come forward for decision; and to present the choices between different programmes and between alternative courses within them. In their first days in office the Government considered the choices open to them in this way and decided their first social priorities, which were to increase the rates of national insurance and associated benefits and to remove the prescription charges.

6. These choices are made from a comprehensive aggregate of public sector expenditure, including both current and capital expenditure by central and by local government, and the gross outgoings of the National Insurance Funds, but excluding debt interest. This total was about £10,500 million in 1964–65. It involves expenditure of many kinds, e.g., purchase of defence equipment and laboratory supplies; the employment of soldiers and hospital staffs by the central government, and of teachers and firemen by local government; the construction of houses, schools and roads; payments of national insurance benefits and of national assistance to those in need; support for agriculture; loans and grants to firms moving to development districts; aid to under-developed countries.

7. These expenditures are linked by three common strands. First, all are decided by Government, central and local, on grounds of public interest. Secondly, they generally involve directly or indirectly a claim on the nation's productive resources—a direct claim where the Government are employing manpower, buying goods or paying for construction, and an indirect claim where the Government pay pensions or family allowances, or give grants to universities or loans to industrial enterprises. Such "transfer payments" give their recipients a claim on resources, which becomes an addition to demand except to the extent that the payments are saved; and in most cases the circumstances are such that the payments are spent. Thirdly, all these expenditures are paid for either from taxation, local rates or national insurance contributions, or by borrowing from the public*.

8. The investment of nationalised industries and of certain other public corporations like the B.B.C., and the Exchequer advances to them, are handled separately. This is because the nationalised industries are enterprises producing goods and services for sale; and the size and composition of their investment are considered in relation to the industrial needs of the economy and the commercial policy of the undertakings themselves, and have less in common with the generality of central and local government expenditure than with that of the rest of industry. Because this is not true of subsidies to them, they are included in the aggregate.

9. For review and control purposes the aggregate of public sector expenditure is divided into functional blocks. Each heading—defence budget, education, health and welfare, benefits and assistance, and so on—includes all the expenditure for the particular purpose. For example, the education total includes the pay of teachers and other running costs, new building, provision of equipment and student awards for the whole range

* The receipts and expenditure of the public sector are analysed in Appendix III.
of publicly-financed educational institutions from primary schools to universities, whether these are the responsibility of the Department of Education and Science and the Scottish Education Department, or of the local authorities, or of private bodies, such as universities, receiving grants and loans from Government Departments and local authorities.

10. This classification enables the Government to consider the development of the various services as a whole, and to decide the priorities between them. Each main block is within the scope of one Minister (except where there are separate Departments for Scotland and Wales); and each Minister is able to decide how to use the resources allocated to him within it. The extent to which the whole block of expenditure is under the detailed control of the Minister will vary from case to case; but even where the Minister has no formal control, as with much local authority expenditure, the Government Department's policy and the procedures for determining the level of Government grant or approving loan sanctions for capital expenditure may bring the dimensions and direction of the development of the services within the influence of the Minister.

11. The aggregate of public sector expenditure is dominated by a few large programmes. The defence budget, roads, public housing investment and subsidies, education, health and welfare, benefits and assistance account for about three-quarters of the total. Some important programmes, such as assistance to industry, cannot be realistically predicted over a long period; so the main programmes represent an even greater proportion of those expenditures for which long-term programmes can be drawn up in advance.

12. The period 1964-65 to 1969-70 was chosen for the review. The out-turn for the base year 1964-65 was not then known and an estimate was used: the expenditure for the year 1965-66 was to a considerable extent determined by the plans of the previous Government: four more years were then covered to 1969-70. In general, this is the most convenient period for considering the development of most of the main public services—for many it is the time required to train skilled staffs and to plan and build new capital facilities.

13. The nature and technology of most of the main public services require a planning period of four or five years. The phasing of development of these services is therefore such that substantial changes of direction cannot quickly be made without risk of dislocation. Nevertheless the Defence Review is aimed at eliminating a prospective 20 per cent increase in expenditure from 1964-65 to 1969-70; and this has involved a radical review of world-wide commitments, weapon systems and procurement arrangements. The savings thus secured will make a substantial contribution to higher rates of growth in other services of high economic or social value.

III—The 1965 Survey and Allocation

14. In order to draw up a comprehensive set of public sector expenditure programmes, the Government had to decide at an early stage how much public expenditure should be provided for in the period up to 1969-70. The preparation of forward estimates of the cost implications of public expenditure policies was a familiar one: there had been an annual Survey
of public sector expenditure from 1961 onwards, in accordance with the recommendations of the Plowden Committee*. The essential and novel element was the procedure of deciding first how much the country could afford; then deciding how this could best be deployed; and finally requiring each spending Minister to arrange his expenditure within his agreed allocation.

15. The Department of Economic Affairs and the Treasury therefore prepared an initial assessment of the growth of gross national product which could reasonably be expected, and then of the resources which were required to improve the balance of payments, to strengthen private and nationalised industries’ investment, to provide for the expansion of public expenditure on the lines of the policies then ruling, and to allow for the growth of private consumption.

16. The outcome was the Cabinet’s decision in January, 1965, that the rate of growth of the aggregate of public sector expenditure (as defined above) from 1964–65† to 1969–70 should not exceed 23 per cent (i.e. an average of 4½ per cent a year) at constant prices. It was necessary to decide this provisional guide-line first in order to establish an effective starting-point for the reshaping of programmes. The decision was announced in Parliament by the Chancellor of the Exchequer on 22nd February, 1965, when presenting the Vote on Account (see Appendix I).

17. The 1965 Survey of public sector expenditure began as soon as the Cabinet decision had been made, starting with instructions for a detailed costing by all spending Departments of their policies for the period 1964–65 to 1969–70. These were divided between “basic” programmes, which were to be drawn up within limits laid down in advance and related to the developments of the individual services already in train, and “additional” programmes representing the cost of further improvements which could be undertaken if more resources were made available. The programmes were prepared at constant prices, so that the change in expenditure shown from year to year excluded any effect which price changes (including changes in wages and salaries) might have on the amount of money to be spent.‡

18. The returns by Departments covered the whole field of public sector expenditure. They were subjected to a rigorous scrutiny in order to ensure:—

(a) that the financial implications of existing policies had been fully taken into account in the “basic” programmes;

(b) that realistic costings had been made of the “additional” programmes and policies.

19. There was available to the Government in June, following this examination, a detailed Survey of the prospects for public expenditure, which covered both “basic” and “additional” programmes, and this was agreed

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† The out-turn for 1964–65 was lower than had been expected in January, 1965: the Cabinet’s decision related to the comparison with the figures and definitions at the time of the original statement, which are set out in the tables in Appendix I.
‡ The figures for current expenditure on goods and services were prepared as nearly as possible on the same price basis as the 1965–66 Budget Estimates. Figures for capital expenditure were mostly at March, 1965 prices. Payments such as subsidies and grants and loans to industry, which do not involve the direct purchase of goods and services, were measured in such a way as to make no allowance for any effects from price changes. The costings prepared on the basis described are referred to collectively as “at 1965 Survey prices”.

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by the spending Departments and the Treasury and the Department of Economic Affairs to be as realistic and accurate a costing as was possible.

20. The Survey provided for a contingency allowance of £100 million for 1969–70 in order to make some provision for possible needs for extra expenditure by the Government in circumstances which cannot be foreseen (e.g., for natural calamities) and for the tendency for the implementation of policies to cost more than expected. The allowance made is three-quarters of one per cent of total expenditure.

21. While the Survey of public expenditure was taking place, the preparation of the National Plan was proceeding. More refined analysis of the economic prospects for the period from 1964 to 1970 confirmed the initial decision limiting the growth of public sector expenditure to 4½ per cent a year at constant prices. The examination of the prospects of the construction and engineering industries, and the prospective supply and demand for manpower, showed where special pressures were likely to exist; and these were taken into account in the scrutiny of the expenditure programmes. One fact of particular importance was the requirement of the health and education services together with public administration for some 500,000* extra people between 1964 and 1970, a requirement greater than the total increase of manpower expected to be available. This conclusion put great weight on the importance of efficiency in the use of manpower throughout the public sector, and illustrated the existence of physical as well as financial limitations to the expansion of these services.

22. The Survey was considered, together with the relevant evidence accumulating from the work on the Plan, by a group of senior Ministers, none of whom had large Departmental responsibilities for any particular block of expenditure, under the chairmanship of the Chancellor of the Exchequer. The Ministers responsible for the main expenditure programmes were consulted one by one. In the light of this examination, the Group recommended the adoption of specified limits for each of the main programmes of expenditure, both for 1966–67 and for 1969–70. The Group made their report to the Cabinet in July, and decisions were taken on each of the main programmes for the two years in question. The decisions in respect of 1969–70 were announced in the National Plan.†

IV—Composition of Public Sector Expenditure

23. In parallel with this process of Survey and allocation, the review, announced in October, 1964, of certain programmes was in progress; and the ultimate shaping of the programmes resulted from the combined effect of these operations and also from the day-to-day decisions taken in the course of the year.

24. The defence review was under way by Christmas, 1964. The Defence White Paper‡ presented in February, 1965, formulated the problem of finding the means by which defence expenditure during the next few years might be contained at roughly the then current figure in real terms. The continuation of previously existing policy would have involved an increase at constant

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* The National Plan, chapter 2, para. 18
† The Tables in Appendix II are developed from and supplement those in chapter 18 of the National Plan.
prices from an estimated £2,000 million in 1964–65 to £2,400 million by 1969–70; and after the first stages of the review the Government were able to adopt the reduction to £2,000 million in 1969–70 as a definite objective on which economic planning could be based. [A series of decisions was taken from January onwards, notably on aircraft procurement, the future of the Army reserves, and the cancellation of the fifth Polaris submarine, which went more than half-way towards the target of a saving of £400 million.*]  

25. Civil defence preparations have also been reviewed and will be limited so that annual expenditure is brought below the rising level of recent years. Compared with £22-7 million in 1965–66, estimated expenditure in 1966–67 will amount to £19-7 million.  

26. Expenditure on overseas assistance, which is to a large extent determined in some two years in advance by previous decisions, is expected to rise from about £190 million a year in 1964–65 to about £225 million in 1966–67 on the basis of existing commitments. The future programme will depend on periodic reviews in the light of progress made in overcoming our economic problems.  

27. In the social and community services, the main characteristics of the reshaping of programmes† have been:—  

(a) A very large expansion in public sector housing investment and a substantial increase in subsidies, involving increases of 33 per cent and 68 per cent respectively from 1964–65 to 1969–70.‡  

(b) A continuing expansion from 1964–65 to 1969–70 in education (32 per cent) and health and welfare (23½ per cent).  

(c) In benefits and assistance, an increase of 38 per cent, of which 8 per cent is attributable to growth in the number of beneficiaries: the first priority has been given to the introduction of earnings-related benefit in the early months of unemployment, sickness, industrial injury and widowhood.  

(d) The police and prisons services show together an increase of 22 per cent.  

(e) For roads, the increase is just over 40 per cent, with construction and major improvements showing an increase of over 70 per cent to £364 million in 1969–70, but this increase in expenditure will be insufficient to match the growth of congestion in the period under review.  

(f) The control of miscellaneous local authority investment (mainly civic offices and recreational projects) has been tightened.  

28. On the economic side, major decisions include the schemes to introduce an entirely new system of investment incentives to concentrate Government assistance when the need to increase investment is greatest;** and to set up an Industrial Re-organisation Corporation to promote greater efficiency, in British industry through schemes of rationalisation and modernisation††.  

† The programmes (a), (b), (c), (e) are more fully described in chapters 12, 17, 20, 21 and 22 of the National Plan.  
‡ The Housing Subsidies Bill and the Housing Financial Provisions (Scotland) Bill.  
In addition, a large number of measures have been taken or announced to stimulate mobility of labour and advanced technology, with considerable extra expenditure, e.g. expansion of training facilities; redundancy payments to improve the mobility of labour; special funds for the National Coal Board to expedite closure of uneconomic pits; increased funds for the National Research Development Corporation’s investment in innovations in such fields as computers, machine tools and process control; encouragement of farm amalgamations; export promotion; and the National Ports Council’s development programme.

29. The composition of public sector expenditure (Appendix II, Table 1) will change considerably in the next few years. Defence and related expenditure will proportionately be taking much less; there will be greater expenditure on incentives and services which are designed to improve the performance of the national economy: the need to improve the social infrastructure, notably in housing but also in communications, related to regional development, will certainly involve large increases particularly of capital expenditure: the education and health services will continue to expand: and the growing numbers of old people, and the desire to improve their standard of living in line with that of the rest of the community, will involve rapidly increasing expenditures on benefits and assistance of all kinds.

30. In terms of economic category also the composition of public sector expenditure will change between 1964-65 and 1969-70 (Appendix II, Table 2). Capital formation (i.e. expenditure on houses, roads, schools, hospitals, etc.) is likely to increase by nearly 50 per cent: this expenditure together with the investment of the nationalised industries and other domestic capital expenditure* is set out in greater detail in Tables 5 and 6 in Appendix II and shows a total capital increase of nearly 28 per cent. Current expenditure on goods and services is likely to increase by only 15 per cent, with the stabilisation of defence expenditure, nearly all of which, whether of current or capital character, is, under national accounting conventions†, included in this category. The 38 per cent increase in current grants to persons is due predominantly to benefits and assistance, but there are other rapidly expanding items here, such as grants to universities.

31. In Appendix II, Table 3, the totals are divided by spending authority—Government Departments, national insurance funds, local authorities. The increase in local authorities’ expenditure, current and capital, is put at 35 per cent, reflecting the development of education, roads and housing. This rapid prospective growth of local authorities’ expenditure underlines the need for the change in the financial relationship between central and local government which is now under discussion between the Departments and the local authority associations, and which will be the subject of legislation during the present Session of Parliament.

V—Development of Long-Term Programmes

32. The 1965 Survey and allocation operations have established guidelines for the development of each of the main services, with specific limits for 1966-67 and 1969-70. Similar limits will be established for those smaller services for which it is practicable to draw up a long-term programme.

* For a definition of this term see footnote (1) to Table 6, Appendix II.
† See explanatory notes to Table 2, Appendix II.
33. These five-year guidelines have a dual purpose, for they provide a framework both for the planning of the service and for financial control. The Minister in charge of each service has as much assurance as it is practicable to give of the resources which will be at the disposal of the service. This enables him to plan how to use them to the best advantage, and it greatly eases the day-to-day operation of financial control.

34. The extent to which there are specific long-term programmes in physical terms depends upon the administrative and technological content of each service. In defence, the period of weapons production is so long that ten-year costings are needed, and have been used for some years. The functional costings system* has also been set up as a tool for long-term defence planning. The technology of the road programme requires that it should be planned in detail over a period of five years, with some judgment made of what development will be possible for a further period of years. In the education programme, the two crucial long-term factors are the supply of teachers and the supply of buildings; and in the latter it is the general practice for programmes of starts to be authorised to local authorities and universities three years ahead (i.e. in respect of buildings to be finished five or more years ahead). In the health service, a long-term hospital programme is in progress, and the allocations for running costs are settled firmly for the coming year and provisionally for the next year or two thereafter. In housing the need to plan well ahead, covering both the public and private sectors, has become increasingly evident.

35. This long-term planning of the public services has developed far in recent years and will be extended further; and this can now be done with more assurance. The shift of emphasis to the evaluation and appraisal of long-term programmes and the long-term allocation of resources to them is leading to the development of better methods to measure and compare the cost-effectiveness of alternative courses of action. In the various economic services, and particularly the investment of nationalised industries, the techniques of appraisal are being continuously improved (see paragraph 44 below). Likewise in defence, the appraisal of the military effectiveness of alternative weapon systems in relation to their cost is now being increasingly developed: the process makes it possible to choose either the cheapest means of accomplishing a defined military objective, or the means of deriving the maximum military value from a given expenditure of resources. There are analogous opportunities for applying similar techniques in the social and community services; and as the long-term programmes become more clearly defined, the use of these tools of management will extend, and better value for money will result.

36. The extension of commitment of the national resources for several years ahead means that there has to be an element of flexibility in the programmes, as is shown in paragraphs 54 et seq. below. They represent too large a part of the use of resources to be independent of fluctuations in the national economy. Moreover, the physical programmes themselves need to be flexible enough to be adjusted for unexpected population movements, changes in costs and techniques, and new social and economic developments.

37. About 85 per cent of the whole of public sector expenditure is of a kind which is suitable for long-term planning within fixed financial limits on the lines described, though the scope for specific long-term programmes defined in physical terms is much less. For this 85 per cent it would appear to be possible to draw up five-year costings of expenditure with a sufficient degree of realism to permit an allocation to be made and financial control to be exercised accordingly.

38. For the remaining 15 per cent, in which it is impracticable to draw up a long-term programme or to work to a long-term financial allocation, other forms of control ensure that aggregate expenditure on these does not increase excessively fast and carry the total of public expenditure above the level which has been laid down.

39. In most of these cases, the cost of a specific policy in a particular year can be forecast only within wide limits. The out-turn of the agricultural subsidies every year will depend heavily upon the level of production and the course of world prices: under the present guaranteed price system, therefore, it is impossible to confine this part of expenditure on agriculture within predetermined limits. Expenditure on agricultural services and on the long-term improvement of agriculture is also difficult to forecast, but it is less subject to wholly unpredictable factors. Firms moving to the development districts have been entitled to grants for buildings and for plant and machinery at fixed percentage rates; but this has not enabled precise estimates of expenditure to be made since it has proved very difficult to predict how many applicants there will be and how long will elapse before the grants require to be paid. The size of the British Railways Board deficit depends in part on variable factors beyond the Board's control. Some kinds of work, particularly but not exclusively in the field of advanced technology, are subject to large and unforeseen escalations of cost.

40. In each of these illustrations, however, the Government's actions are of major importance to the cost. The strength of the stimuli given to production in the Farm Price Review, the size and attractiveness of grants under the Local Employment Act, decisions on proposals to close uneconomic railway services, the cost control of the projects which are liable to escalate: all lead clearly to short-term and long-term increases or decreases in cost. The importance of cost-effectiveness and the appraisal of proper choices are as great here as in the services for which long-term programmes are practicable.

VI—Nationalised Industries

41. For reasons described in paragraph 8, the investment of nationalised industries is not included in the aggregate of public sector expenditure, and is not therefore subject to the limits imposed upon this aggregate. The investment of these industries, and their sound development, are at the centre of the National Plan, partly because of their strategic importance to the economy, and partly because of their size (capital £8,800 million; labour force approaching 2 million; output about one-tenth of gross domestic product; investment of £1,350 million in 1965-66, or about the same as that of the whole of manufacturing industry). They are also of great significance because they depend upon the Exchequer for their supplies of new capital in so far as they cannot provide these from their own resources.
42. These investment programmes were examined in order to ensure that their size and content were adequate to provide the necessary energy, transport and communications for the economic expansion provided in the Plan. The estimated capital expenditure in 1964–65/–66/–67 and in 1969–70 is set out for each undertaking in Table 5 in Appendix II. This table incorporates the decisions on these programmes taken by the Government since the publication of the National Plan.* The rapid expansion in recent years which is expected to take the total of nationalised industries’ investment up from £1,188 million in 1964–65 to £1,462 million in 1966–67 is coming to an end, and the total is expected to fall to £1,406 million by 1969–70. The effect of this course will be to free resources after 1967 for other public investment, for private manufacturing investment, and for exports.

43. Of the increase from 1964–65 to 1966–67 of £274 million, or 23 per cent, in nationalised industries’ investment, £122 million is attributable to electricity, £61 million to gas, and £70 million to the Post Office. In the following years to 1969–70, the level of Post Office investment will expand substantially. This is expected to be more than offset by the fall in the electricity programme as the increased generating capacity initiated in recent years to overcome the dangers of power shortages in the expanding economy comes into service: the position will be reconsidered in the light of this winter’s experience.

44. The scale of the investment is such that the Government and the industries themselves are devoting increasing attention to the techniques and criteria for investment appraisal. Allowance must be made for the social and non-economic obligations which most nationalised industries are required to undertake. But having done this, it is essential, in order to ensure the most efficient deployment of the national resources, that the minimum return on new capital in the nationalised industries should be comparable with that obtainable elsewhere in the economy. The most up-to-date techniques are being developed in order to carry this into effect. The appraisals of the development of the nuclear power programme, of the choice between the various projects for developing the South Wales iron ore ports, and of the electrification of the railway line from London to Southampton and Bournemouth are important recent examples.†

45. The financial objectives which have been agreed from time to time between these industries and the Government have defined the return to be sought on the industries’ capital assets as a whole and have been the guidelines for the industries’ commercial practices. Some of these objectives, including those for the electricity and gas industries, expire during the course of this year, and new objectives have to be set for B.O.A.C. and the British Airports Authority. These will be considered in the context of the Government’s undertaking to retain and develop the system of financial objectives. (See Hansard, 22nd December, 1964, Cols. 231–244.) The nationalised industries, like other industries, are subject to the Government’s general policy on prices and incomes. The Government have made it clear that they expect these industries to do all they can to absorb increases in costs by increasing efficiency; and have referred nationalised industries’ price proposals to the National Board for Prices and Incomes.

* The National Plan, page 57.
† “Iron Ore Imports into South Wales”, Cmd. 2706 (July, 1965); and “Fuel Policy”, Cmd. 2798 (October, 1965).
46. Over the entire field of nationalised industry, the return on capital in 1964-65 averaged 4.2 per cent. There is a wide variation between the financial objectives of 8 per cent (net of depreciation at historic cost) and 12.4 per cent (gross) for the Post Office and the Electricity Council respectively, and the losses of the railways and the coal industry. The lower the return, the greater is the financial call on the Exchequer; and in spite of the improved financial performance in recent years, the industries borrowed over £550 million from the Exchequer in 1964-65, and their borrowing will be more in 1965-66.

47. Where it has been necessary to undertake full scale reorganisation of an industry to meet changed economic circumstances, substantial sums of capital have also had to be written off or placed in suspense: £1,192 million for the British Transport Commission in 1962, £110 million for the British Overseas Airways Corporation and £415 million for the National Coal Board in 1965. These write-offs are, in accounting terms, a recognition of the changed value of the assets they represent, but the cancellation of the industries' debt to the Exchequer which enables these sums to be written off in no way reduces the burden on the community. The Exchequer lends to the industries at the same rate as it borrows in the market. The interest payments made by the industries to the Exchequer just suffice to meet the interest payments which the Exchequer must itself make to those from whom it has borrowed. When Exchequer loans to the industries are cancelled as part of a capital reconstruction, the Government must of course continue to pay interest to the original lenders. The cancellation of Exchequer loans to the amount of over £1,700 million in respect of the three reorganisations above involves an annual permanent burden to the Exchequer on this account, which is at present of the order of £70 million.

VII—Phasing and Implementation

48. The preceding sections describe the method by which the Government have undertaken the reshaping, which they began in October, 1964, of public expenditure programmes. They start from the Government's decision to contain the aggregate of public sector expenditure within a definite limit up to 1969-70; and describe the process of the Survey of public expenditure and long-term allocation of resources between the main public services which followed; and set out the pattern of expenditure which is likely to develop. This is the establishment of a framework; and this final section sets out the problems that arise in working within this framework.

49. First, the wide variety in the purposes, functions and economic nature of public expenditure, in the authorities responsible for it, and in the timescales of the decisions involved, present a formidable problem of forecasting future costs and containing expenditures within the limits laid down. Within the 85 per cent of the aggregate of public sector expenditure for which forward costings of policy can realistically be undertaken, there is no reason to doubt that the quality of the costing will improve, though there will probably continue to be a tendency to underestimate the future cost of carrying out particular policies.

50. The question of control is more complex, because of the variety of public authorities whose expenditure is involved. The expenditure of the Government Departments is of course under the continuous control exercised through the annual Estimates, and the out-turn is normally within a
reasonable margin of the original Estimates: in the last five years, the differences have been +1.7 per cent, +3.5 per cent, +1.5 per cent, −2.3 per cent, and −1.1 per cent respectively (all in money terms). But the margins increase considerably as the period lengthens. The expenditure of the National Insurance Funds follows precisely from the Government's decisions on the various benefits and the numbers eligible for them, which can usually be predicted within a narrow margin. The extent to which the central government can affect the level of local authorities' expenditure, which is about one-third of public sector expenditure, varies widely. There is control over their capital expenditure through loan sanctions and in some cases through specific statutory powers. For current expenditure, there is in general no specific Government control; but the local authorities' policies are in many cases the expression of national policies, and are subject to Departmental regulation, and the fixing of levels of grants affects the ability of the local authorities to incur expenditure.

51. Taking public sector expenditure as a whole, it is not possible to exercise a fine control over substantial periods ahead, but the essence of the long-term allocation system is to ensure that the decisions involving commitments of economic resources for the future are taken according to a rational pattern of priorities and a realistic view of the implications for the national economy of providing these resources; and the technical possibilities of costing and of financial control would seem adequate to support this.

52. A problem not yet fully resolved is that which arises from the fact that the Survey and allocation of public sector programmes, and consequently the long-term programmes of the Departments, have to be carried out in terms of constant prices because price changes do not affect the different programmes in a uniform way. This gives rise to difficulty in comparing the actual expenditures recorded after the event with the provision made in the programmes. Moreover, figures at constant prices obscure the fact that there may be pay and price increases of an exceptional character. Further, from the point of view of financing, the increases in costs caused by increases in pay and material prices are as significant as those required by the expansion of the public services, and anomalies may arise when one kind of cost increase is treated differently from another.

53. The treatment of future expenditure in terms of constant pay and prices tends to underestimate the future weight of the public services in relation to the national economy as a whole. Wages and salaries represent a relatively larger part of the total cost of public services than of industry generally, and the concept of the "productivity" of workers in services like defence and health and education cannot be as clear as in industry. Hence, if pay goes up in the public services at the same rate as in the private sector, the "price" (cost per unit in money terms) of providing these services will rise faster than the average price level for the economy as a whole. This tendency is obscured in the programmes based on constant prices, and emerges in practice only as events unfold.

54. Secondly, there is the need to work the system with a due flexibility. To control public expenditure too rigidly in terms of an aggregate could lead to anomalies. Some kinds of public expenditure are potentially advantageous in their effect upon the national economy: the composition of the total of
public expenditure is as important as its size; and if the composition is favourable for economic growth it is possible for the nation to "afford" a larger total than if the composition were unfavourable. Some kinds of public expenditure, on the other hand, call for particularly scarce kinds of resources, and must be limited accordingly. Great restraint on Government expenditure overseas is likely to be necessary for as far ahead as can be seen. The public sector is such a large user of construction and some kinds of skilled manpower that its requirements have to be examined carefully from this point of view. The total amount of such public expenditure that the nation can "afford" will depend upon the measures taken both in increasing supply and restraining demands to deal with these particular constraints. Again, the new system of investment grants to manufacturing and extractive industries will substitute Government expenditure for tax reliefs; and since this will result in more "public sector expenditure" as defined in this section it will be necessary in due course to re-define the total limits accordingly.

55. The Government are likely to continue to need to establish a limit to the total of public sector expenditure in order to serve as a guideline: but there may in future be room for changes in the definition and boundaries of the aggregate to which a limit is applied.

56. Thirdly, there is the phasing of the programmes. In the early stages of the 5-year programme, the rate of increase in public expenditure is above the average rate from 1964-65 to 1969-70 of 4½ per cent. Thus, the increase at constant prices from 1964-65 (as estimated at the time of the Survey) to 1965-66 was estimated at [6-7] per cent after taking account of the deferments announced on 25th July, 1965. This is mainly because the programmes which the Government inherited on coming to power provided for very large increases in this period. The increase at constant prices from 1965-66 to 1966-67 is not likely to exceed 4½ per cent (see paragraph 70 below); and during the later years of the programme the growth of public expenditure is likely to slow down to less than 4½ per cent, with the flattening out of the defence programme playing an important part in this result.

57. Thus the pattern of the programmes in the five-year period is a faster increase in the early years than in the later, a similar course to that in the total of nationalised industries' investment programmes (see paragraph 42).

58. The immediate increase in public expenditure was more than the economy could bear, having regard to the pressure on resources and on the balance of payments, and the Government therefore took the special measures announced by the Chancellor of the Exchequer on 27th July, 1965 (see Appendix I). These were designed to moderate the rate of growth of public expenditure as effectively as possible, and with the least possible interference with the most urgent social programmes. They concentrated on slowing down the rate of expenditure on capital projects and on deferring purchases of equipment and stores, and they covered the whole of the public sector, including Government Departments, local authorities and nationalised industries.

59. It was necessary to act rapidly to reduce the overload, and this made it impossible to carry out a detailed adjustment of programmes. The Government therefore decided to postpone the starting dates of non-industrial projects for six months, but exempted all projects in development
districts, and houses, schools and hospitals. Loan sanctions were to be given only in special circumstances for local authority loans for expenditure on land purchases in advance of requirements, on civic buildings, offices and a variety of miscellaneous projects; and lending by local authorities on mortgages for house purchase was restricted. Government Departments were instructed to act accordingly; circulars were sent to local authorities inviting their action likewise; and the chairmen of the nationalised industries were asked to help also.

60. It is estimated that central and local government capital expenditure projects to a total value of at least £200 million have been deferred for six months. The effect of these deferments will be to reduce expenditure in 1965–66 by some £40 million and in 1966–67 by about £60 million. In addition to this the deferment of expenditure by Government Departments on stores and equipment will lead to further savings of £7 million in 1965–66 and £6 million in 1966–67.

61. The Chancellor wrote to the chairmen of the nationalised industries drawing their attention to the measures being taken to restrain expenditure in the public sector and asking for their co-operation in comparable measures. He made it clear that he was not asking for postponement of projects which were essential to economic growth over the next few years. As a result the industries are deferring expenditure of the order of £60 million.

62. These deferment measures were temporary, and were designed to reduce the pressure of demand below the excessively high level which it would otherwise have reached; and they have contributed accordingly to the improvement in the balance of payments. It was clearly necessary, however, that this temporary deferment of controls should give place to normal methods of control; and on [8th] February, 1966, the Chancellor of the Exchequer announced that the Departments' programmes had been reconstructed accordingly, so that the savings of expenditure in 1965–66 and 1966–67 would be made, but that the Departments would be able to re-programme their investment within the limits laid down.

63. In the development of the long-term programmes the question of phasing will recur, for public expenditure is too large an element in the national economy to be treated entirely on a long-term basis independently of the short-term economic situation.

VIII—The 1966–67 Estimates

64. The procedures described in section III to determine the allocation of resources to the main public expenditure programmes five years ahead also resulted in allocations for 1966–67. For the expenditures on Votes this made it possible to establish a framework, taking account of the deferment measures of 27th July, 1965, within which each Department was required to prepare its Estimate for 1966–67. Special instructions were given to those Departments whose expenditures were not suitable for long-term programming. Many of these depend heavily upon the economic and international situation at the time when the Estimates are settled. Nearly all the Votes are strongly affected by the course of wages and salaries and prices generally.

65. When the Estimates had been submitted to the Treasury in December and had gone through the initial process of examination, the outstanding questions of policy on them were referred to the same group of senior
Ministers who had considered the long-term allocations in July, 1965 (paragraph 22) in order to ensure that the same standards of stringency and priority were being maintained over the whole range of Government expenditure.

66. The total of the Estimates for 1966–67 was ultimately fixed at £[7,760] million, an increase of £[626] million, or [8.9] per cent over the Budget Estimate for 1965–66. Of this increase, £[70] million is attributable to changes in classification, i.e. to the inclusion this year in Votes of expenditures which would otherwise appear as reductions of revenue (e.g. the corporation tax relief in respect of overspill) or which were formerly advanced from the Consolidated Fund (e.g. advances to the National Research Development Corporation). Of the remaining £[556] million, it is estimated that £[ ] million is attributable to increases in pay and prices. The increase of expenditure at constant prices is [3.3] per cent, or, after adjustment for changes in classification, [2.3] per cent. The corresponding figure this time last year, for the increase at constant prices at comparable definitions, from 1964–65 to 1965–66, was [5] per cent.

67. The full analysis of the Estimates will appear in the Financial Secretary’s Memorandum on the Estimates to be published on [March]. The following table shows the main changes:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Defence Budget</strong></td>
<td>£[2,173]</td>
<td>£[2,120]</td>
</tr>
<tr>
<td><strong>Transport, industry, agriculture, research</strong></td>
<td>£[1,047]</td>
<td>£[971]</td>
</tr>
<tr>
<td><strong>Health, education, housing, non-specific grants to local authorities</strong></td>
<td>£[2,610]</td>
<td>£[2,283]</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>£[1,860]</td>
<td>£[1,760]</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>£[7,690]</td>
<td>£[7,134]</td>
</tr>
<tr>
<td><strong>Classification change</strong></td>
<td>£[70]</td>
<td>£[70]</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>£[7,760]</td>
<td>£[7,134]</td>
</tr>
</tbody>
</table>

68. In terms of constant pay and prices, the Defence Budget for 1966–67 is lower than that for 1965–66, and is now within the Government’s target of £2,000 million at 1964 prices. Purchases of United States aircraft financed by the special credit will not of course be a charge on the Defence Budget until the credit has to be repaid.

69. The rest of the Estimates are up by [10] per cent, of which [6.4] per cent represents increases of pay and prices and [3.3] per cent increases at constant prices. Of the increases of £[503] million, the non-specific grants to local authorities (general grant, rate deficiency grant and the new rate rebates; a large proportion of which is for education) represent £[170] million; the National Health Service £[117] million; universities and other Department-financed education £[23] million; roads £[20] million; industrial
research £[17] million. The payments from the Exchequer for benefits and assistance will be little higher in 1966–67, because the last uprating took place in March 1965.

70. The Government's objective is to contain the growth of public sector expenditure from 1964–65 to 1969–70 within an average increase of 4\% per cent per year at constant prices. Of the aggregate of public sector expenditure as defined for this purpose, the Estimates represent some 60–65 per cent. The remainder consists of Government expenditure not financed by Votes, and the expenditures of the National Insurance Funds and local authorities to the extent that these are not financed by Exchequer grants. It is too soon to make a firm estimate of the increase of these non-Vote public sector expenditures in 1966–67 compared with 1965–66, but it may be regarded as reasonably assured that the aggregate of public sector expenditure in 1966–67, as defined in the Government's objective, will not be more than 4\% per cent higher, at constant prices, than in 1965–66.

IX—Conclusions

71. In conclusion, the Government have two approaches to the problem of expenditure planning and control, one the relatively long-term and one the short-term. The decisions establishing limits for the main programmes for 1969–70 have provided a framework for the development of these services, and enable the Ministers in charge of these services to make their priority choices and plan ahead. This covers most of the field, and should ensure that these main services will be expanded on a scale which can be accommodated within the nation's resources and taxable capacity. Once the total has been established, to spend more on one item means spending less on something else; and this is a true system of economic and social priorities. It is for debate and discussion how these choices should be modified in the years ahead.

72. The implementation of the long-term programmes, together with the process of taking decisions on those elements of public expenditure which are not suitable for long-term programming, are brought into sharper focus in the work of the Estimates, which is designed to ensure that the rates of development are kept within the limits which have been laid down, and to ensure that the short-term needs of the national economy are fully reflected in the course of public expenditure.

73. The Survey of public sector expenditure is an annual one, and the 1966 operation will decide what aggregate increase over the level established for 1969–70 will be practicable for 1970–71, and how this is to be allocated between the main programmes. This is how part of the Plan will roll forward another year, with guide-lines for the development of the main services for a further year ahead. At the other end of the time-scale, decisions will be taken on the limits for 1967–68, which will again be the basis for the work on the Estimates in the autumn of 1966. As the process becomes more firmly established, the Survey and allocation operation will increasingly take the form of a determination of long-term strategy in the outlay of public sector expenditure, brought to a point of decision in the allocation between the main programmes for the fifth year ahead, and the fixing of the limit for the short-term need for cash for the Estimates for the year immediately ahead.
74. The decisions taken by the Government within the last year have formulated objectives for the development of the defence, industrial and social service expenditure programmes consistent with the needs and capability of the economy as a whole. It was made clear in the National Plan* that the successful accomplishment of these programmes is contingent upon the success of the economy in developing along the lines indicated in the Plan. It will be necessary for the Government to control the phasing of the public expenditure programmes within the general limit of the average increase of 4½ per cent a year at constant prices over the five-year period so that the load on the economy which they represent does not increase faster than the economy can bear.

75. The Estimates for 1966–67 are an important step along this path. They reflect the results of the first reshaping of the individual expenditure programmes; and this first stage of the implementation of the long-term programmes has been achieved fully consistently with the aggregate limits of public sector expenditure which the Government laid down in their early months of office.

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* The National Plan, page 181.
APPENDIX I

Statements by the Chancellor of the Exchequer on Public Expenditure

Extract from the Budget Statement, 11th November, 1964

[O.R. Cols. 1029-31]

[Mr. Callaghan]

The expenditure programmes that we found in being for defence, the social services, houses, schools, hospitals, roads, will all entail substantially increased expenditure every year. By 1968 the total expenditure in the public sector will be £2,000 million more than it is today, without making any allowance for increased prices in the interim. This future expenditure is based on the revenue and savings that would accrue from a growth rate of 4 per cent in our gross national product. Hon. Members will know that the average annual increase in our national product over the last five or six years has been only about 3 per cent, or a little less, and over the whole period from 1951 onwards has been no more than 2\(\frac{1}{2}\) per cent.

Putting it another way, the previous Administration have pledged our future revenues for the next four years on the basis of an underlying growth rate that they did not achieve and, looking at their record, they were unlikely to achieve. Of course, it is possible that the previous Government would have achieved and maintained a 4 per cent growth rate for the next four years in a row. I do not say that miracles cannot happen, but the programmes that we have taken over have been planned on the assumption that the miracles have already happened. Many of these programmes—current and capital—are, in practical terms, already committed. It will take time to reshape them, but we intend to do this.

Our first objective is to get the deployment of economic resources right. For example, large and important parts of our industrial and technological manpower and capacity are locked up in production and research for the Government. It will be our urgent task to see how far this pattern should be modified in the national interest so as to release resources for more productive purposes and for the expansion of exports. Defence will be in the forefront of this examination. This year's figure is over £2,000 million, of which £350 million is spent overseas and is a direct burden on the balance of payments. This is the important point. The failure to secure value for money in the defence field has become a byword throughout the country: by relating commitments to resources it is our intention to ensure that the Armed Forces are able to discharge their task with greater effectiveness and economy.

We shall also examine those Government expenditures in the civil field which have an economic aspect to ensure that an adequate economic and financial return can be secured for the industrial and scientific manpower and capital which they absorb. The purpose of much of this expenditure is sound enough and it is not our intention to hack it with a meat chopper. In the first instance, therefore, we intend to ask a task group of senior officials including scientific and economic advisers to sort out these projects and appraise their economic priority. We shall then have a firm basis for action.

18
Next, my hon. Friend the Chief Secretary will be reviewing the remaining field of civil expenditure and I have asked him to consider whether the priorities at present established are right or whether it is possible for the Government to release valuable men and plant for work which will strengthen the balance of payments and help expanding industry. We are looking for all economies, not just tiny economies, although it must be part of the Chief Secretary's task to try to get rid of the kind of waste to which the Comptroller and Auditor General has drawn attention in recent years. But our basic objective is to find substantial cases where expenditure is not yielding full value in social and economic terms.

To turn to the other side of the medal, there are, clearly, fields in which increased expenditure by the Government can help the modernisation of the economy and the improvement of the rate of technical progress. The help that is being given to ensure more rapid development in the under-employed areas of the country is a good example of this. I very much welcome the discussions which my right hon. Friends the First Secretary and the Minister of Labour are about to have with industry to help men move easily from jobs where productivity is relatively low and opportunities are few to more productive and progressive employment.

Extract from a Statement by the Chancellor of the Exchequer on 22nd February, 1965, about Supply Expenditure, 1965-66

[O.R. Cols. 35-37]

[Mr. Callaghan]

The Vote on Account, covering the Civil Estimates and the Defence (Central) Estimate, is being published this afternoon . . . It is the Government's task to plan the purposive use of our economic resources as a whole, in order to secure, first, that total expenditure both public and private matches the resources that can be made available, and, second, that within the total there is a proper balance between the requirements of the public and private sectors. This means that the public sector may need to absorb a larger share of our gross national product than it does today. But the growth of public expenditure must be effectively controlled so that social and economic priorities can be duly secured in the National Economic Development Plan which the Government are preparing.

We have accordingly been considering the problem of planning the longer-term course not only of Central Government expenditure, but of the total expenditure of the whole public sector. A final decision on the details of this will be reached when the plan has been drawn up. Meanwhile, the Government have decided that the growth of public sector expenditure between 1964-65 and 1969-70, excluding the investment of the nationalised industries, will be related to the prospective increase in national production, which in our present judgment means limiting the average increase in public sector expenditure, taking one year with another, to 4½ per cent a year at constant prices. This will mean a corresponding containment of the rise in private sector expenditure. Only as a nation succeeds in raising the annual rate of production can public and private expenditure be increased.

These decisions will provide a sound base for our policies for modernising and expanding the national resources. They will also permit the progressive development of our economic and social policies, because expenditure will be realistically related to our capacity to embark upon new plans.
Extract from the Budget Statement, 6th April, 1965

[O.R. Cols. 279–281]

[Mr. Callaghan]

I now come to public expenditure. Both in my statement of 22nd February and in my opening remarks today I have made it clear that it is our intention to plan the use of economic resources and to control the growth of public expenditure so that the right balance of economic and social priorities can be duly secured. The control of public expenditure will therefore be used positively as well as negatively. The Government have decided that the growth of public expenditure between 1964–65 and 1969–70 will be related to the prospective increase in national production. In the Government's present judgment this means limiting the overall increase in public sector expenditure, excluding the investment of the nationalised industries, and taking one year with another, to 4\(\frac{1}{4}\) per cent a year at constant prices.

We are examining the whole of public expenditure again in order to determine a proper order of priorities and to control waste.

In the field of defence, reviews are being conducted to ascertain the changes that would be required to contain expenditure at roughly the 1964–65 figure in real terms. One of the most serious aspects of this problem is the growth of overseas military expenditure. This includes maintaining our troops in Germany, the Middle East and the Far East. Since 1959—I ask the Committee to note these figures—this total has gone up year by year without let or hindrance from about £175 million to over £300 million, including defence aid. These payments across the exchanges constitute a serious drain on our balance of payments. A reduction in them depends upon others as well as ourselves, but the economy badly needs some of the foreign exchange resources absorbed by the defence programme; and the Government intend to secure a reduction in the existing burden.

Altogether, about 1½ million men and women are employed in the Forces and in industry to supply them. These are important and scarce resources of manpower, needed for industrial expansion and for exports. It is against this background that the Government have had to consider the future of the TSR2 project. My right hon. Friend the Secretary of State for Defence hopes to catch your eye later in the debate this evening, Dr. King, in order to make a full statement about the Government's policy and its decision to cancel the project.

The effect of this decision is to save £35 million of Government expenditure in 1965–66, after taking account of the terminal costs which may become due to be paid this year. But, so far, this aircraft has cost £125 million, and the cost is mounting fast every week. It has, and would have, diverted hundreds of factories employing thousands of skilled and semi-skilled men from other work of national importance, including exports in particular. This is not a sensible use of our overstrained resources. The Government's decision will, in the next five years, release £350 million of resources of an advanced kind for more productive work.

On expenditure in industry, my colleagues' statements in the last few days about postal charges, railway closures and agricultural support demonstrate our policy—and we do not intend to be moved from it—that
these industries should continue to increase their contribution to the national economy. Where we believe that Government expenditure can have a constructive and fertilising effect on industry, we have shown ourselves ready to make the money available. In education, in health, in social security and in housing we are engaged in arranging our priorities so that we can get the best combination of programmes and the best value for money within the expenditure which can be devoted to these purposes.

Side by side with this is the review of local government finance which is going on, which will enable us to decide how the expenditure on the public services can best be shared between central and local sources of finance. It is no easy matter to reshape public expenditure in a short time and we must look further ahead than just the current year if we are to make a real impact on these expenditures. But I commend to the Committee, and especially to my hon. Friends, the words of Robert Owen:

“Beneficial changes can alone take place by well digested and well arranged plans temperately introduced and perseveringly pursued.”

I know only too well, as my predecessors did, of the pressure for higher pensions and for better pay; and I do not need to recall to any hon. Member the recent outcry about the state of some of our schools, the condition of some of our hospitals and the wretchedness of some of London’s housing. My earnest wish is to see the nation freely and willingly devoting the necessary resources to satisfying the simple needs of ordinary men and women—a home to live in, a school to learn in, a hospital when we are sick and a modest living for the elderly. But the fulfilment of these plans jostles against the need for a healthy balance of payments as well as the desire by all of us as individuals for an increase in our own personal standards of living.

For the reasons which I gave at the outset, in 1965 first priority must be given to balancing our overseas payments. I have already indicated the manner in which we are setting about this. Until we get this, we shall need to contain the rise in private expenditure. For the rest, a healthy balance of payments is necessary to enable the economy to grow at a steady pace. Our most important task is to reconcile faster growth with a satisfactory balance of payments. We look to the economic plan which is now being prepared to co-ordinate the conflicting claims made upon our resources by private expenditure, social expenditure, defence and industrial investment; and also to stimulate the economy into greater efficiency and productivity.

Extract from a Statement by the Chancellor of the Exchequer on 27th July, 1965

[O.R. Cols. 228–30]

[Mr. Callaghan]

... This year’s balance of payments deficit is likely to be well below half last year’s figure. To ensure that we reach our aim of eliminating the deficit in the course of next year and of maintaining the strength of sterling, the Government have decided to adopt the following measures.

First, expenditure at home. The Government intend to slow down the rate of expenditure on capital projects and to defer as far as possible
purchases of equipment and stores by Government Departments, local authorities and nationalised industries.

Housing, schools and hospitals will be contained within their existing programmes. For other non-industrial capital projects for which contracts have not yet been signed, the starting dates will be postponed for six months. Exemptions will be made for projects in development districts and areas of high unemployment. Similarly, purchases of goods will be deferred to the maximum possible extent.

All Government Departments have been instructed to carry out this policy and to arrange for other bodies for which they are responsible to do likewise. The nationalised industries will be called on to follow a similar course of action. Local authorities will be asked to follow suit.

Loan sanction and grants will only be given to local authority projects which are urgently required. In particular, sanction will not be given except in special circumstances to loans for expenditure on land purchases in advance of requirements, on civic buildings, offices and a variety of miscellaneous projects which, though desirable in themselves, are not essential at this time. The expenditure in these categories is now running at £150 million a year.

Lending by local authorities on mortgage for house purchase has trebled in England and Wales in the last five years, and in 1964-65 reached £180 million. With the co-operation of the local authorities this will be restricted to the average of the three years ended 31st March, 1965, namely, £130 million.

The House will recall that last spring I undertook to review the swollen programmes of public expenditure left behind by our predecessors. This review is now complete. As I forecast before the election, the examination revealed that it would not be possible to carry out all the programmes we inherited within the limits of our resources until the necessary rate of growth of production has been achieved. We have, accordingly, reshaped the total programme and I can inform the House that from now on expenditure will be kept to the level that we as a nation can afford. I am giving instructions to Departments that the 1966-67 Estimates shall be drawn up within a limit which has been determined for each Department within the agreed total.
**APPENDIX III**

**TABLE 1**

Public sector expenditure(1) by function(2) (excluding nationalised industries, etc.)

<table>
<thead>
<tr>
<th></th>
<th>1964-65</th>
<th>1965-66(3)</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Out-turn at out-turn</td>
<td>1964 estimate at 1965 Survey</td>
<td>Estimate at 1965 Survey</td>
</tr>
<tr>
<td></td>
<td>prices(4)</td>
<td>prices(5)</td>
<td>prices(5)</td>
</tr>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td><strong>Main programmes:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defence Budget</td>
<td>1,918(6)</td>
<td>2,073</td>
<td>2,134</td>
</tr>
<tr>
<td>Roads</td>
<td>393</td>
<td>406</td>
<td>426</td>
</tr>
<tr>
<td>Public housing investment</td>
<td>539</td>
<td>519</td>
<td>571</td>
</tr>
<tr>
<td>Housing subsidies, etc.</td>
<td>147</td>
<td>153</td>
<td>164</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>223</td>
<td>230</td>
<td>237</td>
</tr>
<tr>
<td>Education (with school meals and milk)</td>
<td>1,472</td>
<td>1,459</td>
<td>1,574</td>
</tr>
<tr>
<td>Health and welfare (with welfare foods)</td>
<td>1,213</td>
<td>1,238</td>
<td>1,316</td>
</tr>
<tr>
<td>Benefits and assistance (with family allowances)</td>
<td>2,045</td>
<td>2,120</td>
<td>2,379</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7,950</td>
<td>8,198</td>
<td>8,801</td>
</tr>
<tr>
<td><strong>Other programmes:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aid programme</td>
<td>179</td>
<td>181</td>
<td>196</td>
</tr>
<tr>
<td>Other overseas expenditure</td>
<td>92</td>
<td>98</td>
<td>101</td>
</tr>
<tr>
<td>Railways and waterways deficit grant</td>
<td>123</td>
<td>117</td>
<td>106</td>
</tr>
<tr>
<td>Agricultural support</td>
<td>261</td>
<td>316</td>
<td>293</td>
</tr>
<tr>
<td>Other assistance to industry, transport and agriculture</td>
<td>226</td>
<td>271</td>
<td>299</td>
</tr>
<tr>
<td>Industrial research and research councils</td>
<td>133</td>
<td>155</td>
<td>159</td>
</tr>
<tr>
<td>Environmental services(7)</td>
<td>594</td>
<td>559</td>
<td>685</td>
</tr>
<tr>
<td>Tax collection and other financial administration</td>
<td>122</td>
<td>127</td>
<td>133</td>
</tr>
<tr>
<td>Other</td>
<td>807</td>
<td>778</td>
<td>803</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2,537</td>
<td>2,602</td>
<td>2,775</td>
</tr>
<tr>
<td>Contingency allowance</td>
<td>—</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>10,487</td>
<td>10,800</td>
<td>11,576(8)</td>
</tr>
</tbody>
</table>

(1) For the purposes of Tables 1, 2 and 3 public expenditure is defined as in paragraphs 6 to 8 of the main text above. The total is that which the Government decided to contain within an average increase of 4½ per cent a year at constant prices in the period 1964-65 to 1969-1970.

(2) The expenditure shown for each function is that of Great Britain spending authorities. The expenditure of Northern Ireland spending authorities is included in the last item under “Other programmes”.

(3) Estimates of summer 1965 at prices related to the Budget Estimates of 1965–66. This price basis is used for the 1969–70 figures also and is called “1965 Survey prices.”

(4) The figures for out-turn in 1964–65 agree with those in the table at the end of the 1965 Blue Book on National Income and Expenditure showing the “Treasury analysis of public expenditure”, the difference in total being on account of the exclusion of the capital formation of nationalised industries, etc.

(5) These are estimates for 1964–65 made for the Government’s first analysis from which the “4½ per cent” decision was taken, adjusted to 1965 Survey prices (see note (2) above).

(6) The out-turn for 1964–65 is after deductions of large, special receipts in respect of the handing over of military assets in Kenya and Malta. The amount for 1969–70 is the equivalent, at 1965 Survey prices, of the ceiling of £2,000 million fixed for the Defence Budget at the prices of the 1964–65 Estimates.

(7) Environmental services cover water supply, sewerage, refuse disposal, parks and pleasure grounds and other miscellaneous services provided by local authorities.

(8) This total does not take account of the deferment measures announced by the Government on 27th July, 1965, the effect of which can be expected to be a reduction of the order of £50 million in 1965–66 (see also paragraph 60 of main text above).
<table>
<thead>
<tr>
<th>Main programmes:</th>
<th>1964-65</th>
<th>1964-66(3)</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out-turn at out-turn prices(4)</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>Defence Budget</td>
<td>1,918(6)</td>
<td>2,073</td>
<td>2,134</td>
</tr>
<tr>
<td>Roads</td>
<td>393</td>
<td>406</td>
<td>426</td>
</tr>
<tr>
<td>Public housing investment</td>
<td>539</td>
<td>519</td>
<td>571</td>
</tr>
<tr>
<td>Housing subsidies, etc.</td>
<td>147</td>
<td>153</td>
<td>164</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>223</td>
<td>230</td>
<td>237</td>
</tr>
<tr>
<td>Education (with school meals and milk)</td>
<td>1,472</td>
<td>1,459</td>
<td>1,574</td>
</tr>
<tr>
<td>Health and welfare (with welfare foods)</td>
<td>1,213</td>
<td>1,238</td>
<td>1,316</td>
</tr>
<tr>
<td>Benefits and assistance (with family allowances)</td>
<td>2,045</td>
<td>2,120</td>
<td>2,379</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7,950</td>
<td>8,198</td>
<td>8,801</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other programmes:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Out-turn at out-turn prices(4)</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>Aid programme</td>
<td>179</td>
<td>181</td>
<td>196</td>
</tr>
<tr>
<td>Other overseas expenditure</td>
<td>92</td>
<td>98</td>
<td>101</td>
</tr>
<tr>
<td>Railways and waterways deficit grant</td>
<td>123</td>
<td>117</td>
<td>106</td>
</tr>
<tr>
<td>Agricultural support</td>
<td>261</td>
<td>316</td>
<td>293</td>
</tr>
<tr>
<td>Other assistance to industry, transport and agriculture</td>
<td>226</td>
<td>271</td>
<td>299</td>
</tr>
<tr>
<td>Industrial research and research councils</td>
<td>133</td>
<td>155</td>
<td>159</td>
</tr>
<tr>
<td>Environmental services(7)</td>
<td>594</td>
<td>559</td>
<td>685</td>
</tr>
<tr>
<td>Tax collection and other financial administration</td>
<td>122</td>
<td>127</td>
<td>133</td>
</tr>
<tr>
<td>Other</td>
<td>807</td>
<td>778</td>
<td>803</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2,537</td>
<td>2,602</td>
<td>2,775</td>
</tr>
</tbody>
</table>

| Contingency allowance            |         |          | 100     |

| **GRAND TOTAL**                  | 10,487  | 10,800   | 11,576(8) | 13,295   |

(1) For the purposes of Tables 1, 2 and 3 public expenditure is defined as in paragraphs 6 to 8 of the main text above. The total is that which the Government decided to contain within an average increase of 4¼ per cent a year at constant prices in the period 1964-65 to 1969-1970.

(2) The expenditure shown for each function is that of Great Britain spending authorities. The expenditure of Northern Ireland spending authorities is included in the last item under "Other programmes".

(3) Estimates of summer 1965 at prices related to the Budget Estimates of 1965-66. This price basis is used for the 1969-70 figures also and is called "1965 Survey prices".

(4) The figures for out-turn in 1964-65 agree with those in the table at the end of the 1965 Blue Book on National Income and Expenditure showing the "Treasury analysis of public expenditure", the difference in total being on account of the exclusion of the capital formation of nationalised industries, etc.

(5) These are estimates for 1964-65 made for the Government's first analysis from which the "4¼ per cent" decision was taken, adjusted to 1965 Survey prices (see note (7) above).

(6) The out-turn for 1964-65 is after deductions of large, special receipts in respect of the handing over of military assets in Kenya and Malta. The amount for 1969-70 is the equivalent, at 1965 Survey prices, of the ceiling of £2,000 million fixed for the Defence Budget at the prices of the 1964-65 Estimates.

(7) Environmental services cover water supply, sewerage, refuse disposal, parks and pleasure grounds and other miscellaneous services provided by local authorities.

(8) This total does not take account of the deferment measures announced by the Government on 27th July, 1965, the effect of which can be expected to be a reduction of the order of £50 million in 1965-66 (see also paragraph 60 of main text above).


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current expenditure on goods and services</td>
<td>5,506</td>
<td>5,735</td>
<td>6,575</td>
</tr>
<tr>
<td>Capital formation</td>
<td>1,516</td>
<td>1,467</td>
<td>2,186</td>
</tr>
<tr>
<td>Subsidies</td>
<td>529</td>
<td>580</td>
<td>572</td>
</tr>
<tr>
<td>Current grants to persons, etc.</td>
<td>2,391</td>
<td>2,485</td>
<td>3,342</td>
</tr>
<tr>
<td>Current grants abroad</td>
<td>164</td>
<td>158</td>
<td>155</td>
</tr>
<tr>
<td>Capital grants to private sector</td>
<td>159</td>
<td>149</td>
<td>240</td>
</tr>
<tr>
<td>Loans to overseas governments</td>
<td>153</td>
<td>130</td>
<td>240</td>
</tr>
<tr>
<td>Other lending abroad</td>
<td>78</td>
<td>82</td>
<td>79</td>
</tr>
<tr>
<td><strong>Total</strong> (4)</td>
<td><strong>10,487</strong></td>
<td><strong>10,800</strong></td>
<td><strong>11,576</strong></td>
</tr>
</tbody>
</table>

(1) See footnote (1) to Table 1.
(2) See footnote (2) to Table 1.
(3) See footnote (3) to Table 1.

Current expenditure on goods and services covers all direct current expenditure on goods and services, including wages and salaries, by the central government and local authorities. All current expenditure on the National Health Service, net of revenue from charges raised, is included. Current expenditure on goods and services also includes defence expenditure on fixed assets (other than married quarters, ordnance factories and other items with a potential civilian use) and building and construction expenditure overseas.

Capital formation comprises all expenditure on fixed assets (with the exceptions noted in the immediately preceding paragraph), net of the proceeds from the sale of assets, by the central government, local authorities and certain other public corporations. An allowance for the increase in the value of stocks is also included.

Subsidies include the deficit grant paid to the British Railways and Waterways Boards, all subsidies in support of agriculture and the housing subsidies paid by the central government and local authorities.

Current grants to persons, etc. comprise a wide variety of current transfer payments of which benefits and assistance paid to residents of the United Kingdom under the National Insurance and related schemes form the largest single item. Also included are awards to students, school meals (net of parental contributions) and school milk, and grants in support of the current expenditure of the universities, voluntary schools and other private non-profit-making institutions.

Current grants abroad consist for the main part of grants to overseas governments under the aid programme. Expenditure on certain United Kingdom-based institutions whose activities are directed to the needs of
countries overseas is treated as grants abroad. Military aid, subscriptions to international organisations and benefits and assistance paid to residents overseas are also included.

**Capital grants to the private sector** include building grants to universities and other educational institutions, together with grants in the form of assistance to industry under, for example, the Local Employment Acts and housing improvement grants by local authorities.

**Net lending to the private sector** consists mainly of loans, net of repayments, by local authorities for house purchase. Ship-building loans (net) are also included.

**Loans to overseas governments.** The coverage of this item is self-explanatory.

**Other lending abroad** comprises drawings from the United Kingdom subscriptions to the International Development Association and loans in support of projects sponsored by the Commonwealth Development Corporation.

### TABLE 3

**Public sector expenditure by spending authority**

(excluding nationalised industries, etc.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Out-turn at out-turn prices</td>
<td>1964 estimate at 1965 Survey prices</td>
<td>Estimate at 1965 Survey price</td>
</tr>
<tr>
<td>Central government:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Votes (G.B.)</td>
<td>5,165</td>
<td>5,489</td>
<td>5,632</td>
</tr>
<tr>
<td>National Insurance Funds (G.B.)</td>
<td>1,543</td>
<td>1,609</td>
<td>1,832</td>
</tr>
<tr>
<td>Other(3)</td>
<td>316</td>
<td>355</td>
<td>353</td>
</tr>
<tr>
<td>Local authorities(3)</td>
<td>3,392</td>
<td>3,258</td>
<td>3,639</td>
</tr>
<tr>
<td>New Town Corporations (G.B.)</td>
<td>48</td>
<td>63</td>
<td>68</td>
</tr>
<tr>
<td>Other(3)</td>
<td>23</td>
<td>26</td>
<td>52</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>10,487</td>
<td>10,800</td>
<td>11,576(3)</td>
</tr>
</tbody>
</table>

(1) See footnote (1) to Table 1.
(2) See footnote (4) to Table 1.
(3) Includes expenditure of Northern Ireland spending authorities.
(4) Including contingency allowance.
(5) See footnote (6) to Table 1.

The figures shown in this table represent final expenditure by the various spending authorities, including transfer payments outside the public sector but excluding all transfers between authorities. Thus the actual payments of social security benefits are included against either central government Vote-borne (Supply) expenditure or expenditure by the National Insurance Funds, depending upon the type of benefit; the Exchequer contribution to the Fund is however excluded, since this ranks as an internal transfer within the public sector. Similarly all expenditure by local authorities, irrespective of the way in which it is financed, appears against local authorities, while grants by the
central government to local authorities (estimated at £1,300 million in 1965–66) are excluded. It follows therefore that, because of these transfers and various other transactions between Departments and the Exchequer, the element of total public expenditure by the central government on Votes will differ from the total of the published Estimates. For a reconciliation of total Estimates with total public expenditure see Table 4.

### TABLE 4
Reconciliation between total Supply expenditure (Estimates) and total public expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>1964–65</th>
<th>1965–66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out-turn at out-turn prices(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Supply expenditure (net Votes–G.B.)</td>
<td>6,446</td>
<td>7,134</td>
</tr>
<tr>
<td>less grants, etc. to local authorities</td>
<td>-1,195</td>
<td>-1,305</td>
</tr>
<tr>
<td>less Exchequer contribution to National Insurance Funds</td>
<td>-233</td>
<td>-305</td>
</tr>
<tr>
<td>plus National health contributions</td>
<td>163</td>
<td>164</td>
</tr>
<tr>
<td>less other Vote payments not included as part of total public expenditure</td>
<td>-16</td>
<td>-56</td>
</tr>
<tr>
<td>plus other Vote receipts not deducted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Vote element in total public expenditure</td>
<td>5,165</td>
<td>5,632</td>
</tr>
<tr>
<td>3. Central government expenditure not on G.B. Votes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Consolidated fund loans, etc.</td>
<td>169</td>
<td>193</td>
</tr>
<tr>
<td>(b) National Insurance Funds (G.B.)</td>
<td>1,543</td>
<td>1,832</td>
</tr>
<tr>
<td>(c) Northern Ireland central government</td>
<td>147</td>
<td>160</td>
</tr>
<tr>
<td>4. Expenditure of local authorities (U.K.):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Current expenditure</td>
<td>2,113</td>
<td>2,274</td>
</tr>
<tr>
<td>(b) Gross domestic fixed capital formation</td>
<td>1,141</td>
<td>1,207</td>
</tr>
<tr>
<td>(c) Other capital expenditure</td>
<td>138</td>
<td>158</td>
</tr>
<tr>
<td>5. Expenditure of certain public corporations (mainly New Towns, but excluding nationalised industries, etc.):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Gross domestic fixed capital formation</td>
<td>66</td>
<td>104</td>
</tr>
<tr>
<td>(b) Other capital expenditure</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>6. Total Public Expenditure covered by the “4½ per cent” decision</td>
<td>10,487</td>
<td>11,576(2)</td>
</tr>
<tr>
<td>7. Capital formation of nationalised industries, etc.(3)</td>
<td>1,186(4)</td>
<td>1,330(4)</td>
</tr>
<tr>
<td>8. “Total Public Expenditure”</td>
<td>11,673</td>
<td>12,906</td>
</tr>
</tbody>
</table>

(1) The figures for out-turn in 1964–65 agree with those in the table at the end of the 1965 Blue Book on National Income and Expenditure showing the “Treasury analysis of public expenditure”.

(2) See footnote (3) to Table 1.

(3) See footnote (3) to Table 5.

(4) Gross domestic fixed capital formation and increase value of stocks.
<table>
<thead>
<tr>
<th>Investment of nationalised industries, etc. (1)</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Out-turn at out-turn prices</strong></td>
<td><strong>Estimate at 1965 Survey prices</strong></td>
</tr>
<tr>
<td>National Coal Board</td>
<td>90</td>
</tr>
<tr>
<td>Gas Council</td>
<td>90</td>
</tr>
<tr>
<td>Electricity Council(4)</td>
<td>572</td>
</tr>
<tr>
<td>South of Scotland Electricity Board</td>
<td>44</td>
</tr>
<tr>
<td>North of Scotland Hydro-Electric Board</td>
<td>18</td>
</tr>
<tr>
<td>British European Airways</td>
<td>15</td>
</tr>
<tr>
<td>British Overseas Airways Corporation</td>
<td></td>
</tr>
<tr>
<td>British Railways Board(5)</td>
<td>111</td>
</tr>
<tr>
<td>London Transport Board(3)</td>
<td>21</td>
</tr>
<tr>
<td>British Transport Docks Board(5)</td>
<td>5</td>
</tr>
<tr>
<td>British Waterways Board(5)</td>
<td>1</td>
</tr>
<tr>
<td>Transport Holding Company(5)</td>
<td>14</td>
</tr>
<tr>
<td>Post Office</td>
<td>180</td>
</tr>
<tr>
<td><strong>TOTAL NATIONALISED INDUSTRIES</strong></td>
<td><strong>1,188</strong></td>
</tr>
<tr>
<td>British Broadcasting Corporation</td>
<td>12</td>
</tr>
<tr>
<td>Independent Television Authority</td>
<td>1</td>
</tr>
<tr>
<td>Covent Garden Market Authority</td>
<td></td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>1,201</strong></td>
</tr>
</tbody>
</table>

(1) This table incorporates decisions taken by the Government since the publication of the National Plan.

(2) The figures in these columns take account of the deferment of expenditure called for in the Chancellor's statement of 27th July, 1965 (see Appendix I and paragraph 61 of main text above).

(3) This figure is the industry's estimate only—see paragraph 13 of the White Paper on the Finances of the Coal Industry (Cmnd. 2805).

(4) Includes expenditure on nuclear fuel.

(5) The financial year for these authorities is the calendar year. The figures in this table have therefore been adjusted.
## TABLE 6
**Domestic capital expenditure**
*(including nationalised industries, etc.)*

<table>
<thead>
<tr>
<th></th>
<th>Out-turn at out-turn prices</th>
<th>Estimate at 1965 Survey prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964–65(2)</td>
<td>1965–66(3)</td>
</tr>
<tr>
<td>Defence Budget</td>
<td>23</td>
<td>35</td>
</tr>
<tr>
<td>Roads</td>
<td>208</td>
<td>216</td>
</tr>
<tr>
<td>Housing (including improvement grants)</td>
<td>553</td>
<td>590</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>Education</td>
<td>261</td>
<td>253</td>
</tr>
<tr>
<td>Health and welfare</td>
<td>104</td>
<td>116</td>
</tr>
<tr>
<td>Nationalised industries(4)</td>
<td>1,184(3)</td>
<td>1,310</td>
</tr>
<tr>
<td>British Broadcasting Corporation, Independent Television Authority, Covent Garden Market Authority(4)</td>
<td>12(3)</td>
<td>12</td>
</tr>
<tr>
<td>Other</td>
<td>669</td>
<td>795</td>
</tr>
<tr>
<td><strong>TOTAL DOMESTIC CAPITAL EXPENDITURE</strong></td>
<td>3,038</td>
<td>3,349</td>
</tr>
<tr>
<td>less sales of fixed assets</td>
<td>-82</td>
<td>-87</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2,956</td>
<td>3,262</td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross domestic fixed capital formation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central government</td>
<td>292</td>
<td>327</td>
<td>356</td>
<td></td>
</tr>
<tr>
<td>Local authorities</td>
<td>1,141</td>
<td>1,184</td>
<td>1,267</td>
<td></td>
</tr>
<tr>
<td>Nationalised industries, etc.(4)</td>
<td>1,165</td>
<td>1,227</td>
<td>1,446</td>
<td>3,553</td>
</tr>
<tr>
<td>Other public corporations(4)</td>
<td>66</td>
<td>102</td>
<td>118</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2,664</td>
<td>2,890</td>
<td>3,187</td>
<td>3,558</td>
</tr>
<tr>
<td>Capital grants to private sector</td>
<td>139</td>
<td>181</td>
<td>182</td>
<td>245</td>
</tr>
<tr>
<td>Net lending to private sector</td>
<td>153</td>
<td>191</td>
<td>142</td>
<td></td>
</tr>
</tbody>
</table>

(1) "Capital formation" in national accounting terms does not include grants and loans to the private sector (e.g. universities) for capital purposes. These are, however, included in "domestic capital expenditure". Thus the figures in this table provide a total of domestic asset-creating expenditure by the public sector.

(2) Based on information available at time of publication of the 1965 Blue Book on National Income and Expenditure and hence consistent with the table at the end of the Blue Book showing the "Treasury analysis of public expenditure" by financial years and with Tables 1-4 and Table 7 of this White Paper.

(3) The figures in these columns take account of the deferment of expenditure called for in the Chancellor's statement of 27th July, 1965. (See also paragraphs 60 and 61 of main text above).

(4) See footnote (1) to Table 5.

(5) The figures in Table 5 for these items differ slightly because of the use in that table of later information.
## APPENDIX III

### TABLE 7—Receipts and expenditure of the public sector, 1964–65

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Economic classification of expenditure</th>
<th>Functional classification of expenditure(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes on income</td>
<td>3,688</td>
<td></td>
</tr>
<tr>
<td>National insurance contributions</td>
<td>1,291</td>
<td></td>
</tr>
<tr>
<td>National health contributions</td>
<td>168</td>
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<td>Taxes on expenditure, central government</td>
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<tr>
<td>Local rates</td>
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<td>Gross trading surpluses(2):</td>
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<tr>
<td>Capital government and local authorities</td>
<td>101</td>
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<tr>
<td>Public corporations (including nationalised industries, etc.)</td>
<td>940</td>
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<tr>
<td>Gross real net income</td>
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<tr>
<td>Interest, dividends, etc.</td>
<td>224</td>
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<td><strong>TOTAL</strong></td>
<td>11,683</td>
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<td><strong>CAPITAL RECEIPTS</strong></td>
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<td>Current surplus(3)</td>
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<td>Taxes on capital</td>
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<td>Capital transfers</td>
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<td>Proceeds of iron and steel disposals</td>
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<td>Receipts from certain pension “funds” (net)</td>
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<td>Adjustments for accruals of:</td>
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<td>Net balance(4):</td>
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<td>Local authorities(5)</td>
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<tr>
<td>Public corporations(6)</td>
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<td><strong>TOTAL</strong></td>
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<td><strong>CURRENT EXPENDITURE</strong></td>
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<td>Gross domestic fixed capital formation:</td>
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<tr>
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<td>Local authorities</td>
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<td>Nationalised industries, etc...</td>
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<tr>
<td>Other public corporations</td>
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<tr>
<td>Increase in value of stocks:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central government</td>
<td>17</td>
<td></td>
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<tr>
<td>Public corporations (including nationalised industries, etc...)</td>
<td>21</td>
<td></td>
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<td><strong>TOTAL CURRENT EXPENDITURE, EXCLUDING DEBT INTEREST</strong></td>
<td>8,590</td>
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<td>Debt interest</td>
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<td><strong>TOTAL CURRENT EXPENDITURE</strong></td>
<td>9,969</td>
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<tr>
<td>Current surplus(7)</td>
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</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>11,683</td>
<td></td>
</tr>
</tbody>
</table>

### Notes

1. Provisional cut-turn, see footnote (1) to Table 1.
2. For greater detail, see table at the end of the 1965 Blue Book on National Income and Expenditure showing the "Treasury analysis of public expenditure." The classification differs in some respects from that in Table 1 above.
3. Excludes current expenditure on goods and services on operating account of public corporations and other public enterprises.
4. Before providing for depreciation or stock appreciation.
5. Equal to net borrowing, less increase in foreign reserves.
7. The definition differs from that of the figures of domestic capital expenditure for nationalised industries in the top half of Table 6. In the figures in this table sales of fixed assets have been deducted in accordance with the national accounting definition of gross domestic fixed capital formation.

### £ million

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<td>Other defence expenditure (including civil defence)</td>
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<td></td>
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<tr>
<td>External relations</td>
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<tr>
<td>Roads and transport</td>
<td>567</td>
<td></td>
</tr>
<tr>
<td>Employment, industry and trade</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>Industrial research and research councils</td>
<td>133</td>
<td></td>
</tr>
<tr>
<td>Agriculture, fisheries and forestry</td>
<td>327</td>
<td></td>
</tr>
<tr>
<td>Libraries, museums and arts</td>
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<td></td>
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<tr>
<td>Law and order and fire services</td>
<td>322</td>
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<tr>
<td>Education</td>
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<tr>
<td>Health and welfare</td>
<td>1,175</td>
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<tr>
<td>Children's services</td>
<td>315</td>
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<tr>
<td>Benefits and assistance</td>
<td>1,898</td>
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</tr>
<tr>
<td>Financial administration and common services</td>
<td>239</td>
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<tr>
<td>Miscellaneous services</td>
<td>37</td>
<td></td>
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<tr>
<td>Northern Ireland</td>
<td>232</td>
<td></td>
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<tr>
<td>Statistical adjustments</td>
<td>-19</td>
<td></td>
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<tr>
<td>Gross domestic fixed capital formation of nationalised industries, etc.(7)</td>
<td>1,165</td>
<td></td>
</tr>
<tr>
<td>Total, excluding investment of nationalised industries, etc.</td>
<td>10,487</td>
<td></td>
</tr>
<tr>
<td>“TOTAL PUBLIC EXPENDITURE”</td>
<td>11,673</td>
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### Source

APPENDIX III

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Printed and published by
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Printed in England
3rd February, 1966

CABINET

SITING OF THE PROTOTYPE FAST REACTOR

Memorandum by the Minister of Technology

The Chancellor of the Exchequer has agreed proposals I put to him for the construction of a Prototype Fast Reactor (PFR) at a capital cost of about £29 million. I am being pressed to announce where the prototype is to be built and this raises important political, economic and social issues.

2. The choice lies between Dounreay in Caithness and Winfrith in Dorset. Other sites have been considered, but rejected for the overriding reason that the Atomic Energy Authority (AEA) already have two reactor research and development establishments and certainly do not need a third. Although the Advanced Gas Cooled Reactor (AGR) prototype is at Windscale, this establishment is otherwise almost entirely concerned with the processing of burnt fuel elements. The AGR was put there in 1958 because at that time work had only recently begun on the Winfrith site.

3. The choice between Dounreay and Winfrith depends on considerations which can be grouped as follows:

   (i) Long-term planning of the Authority's research and development programme.

   (ii) Costs.

   (iii) Technical considerations affecting the fast reactor development programme.

   (iv) Social and related questions.

4. Long-term planning of the AEA's programme

   When the Authority was set up in 1954, its major task in the civil field was to pursue the development of nuclear power. A substantial part of this work has now been done. We have a nuclear power programme based on Magnox reactors which has already demonstrated the technical efficiency and safety of nuclear reactors as generators of electricity. We have also authorised a second programme, for the period 1970-75, in which nuclear power will be more than competitive with conventional power stations. Further work is needed to achieve the full development potential of the AGR; and there is still considerable scope for further reduction of the costs of
nuclear power and for the achievement of a balance programme between thermal and fast reactor stations. It is clear, however, that there is bound to be a gradual decline in the scale of effort and expenditure on the development of power reactor systems. A tapered programme which will reflect this is now being worked out. Although the details are not yet clear, it seems certain that such a programme can be most efficiently and economically organised at one major reactor development establishment rather than at two. It would be wasteful to try to run both the existing establishments at substantially reduced levels of activity.

5. Dounreay is concerned almost entirely with fast reactor development and has only one research reactor - for materials testing - in addition to the experimental fast reactor. Winfrith is involved in the development of all four of the Authority's reactor systems - AGR, Steam Generating Heavy Water Reactor (SGHW), High Temperature Gas-Cooled Reactor (the Dragon international project) and the Fast Reactor. The 100 MW prototype SGHW now being built there is expected to have a long operating life. The Dragon reactor, also on this site, is likely to function for a number of years, assuming that the United Kingdom or a group of countries jointly, decide to go on with this type of reactor. In addition, Winfrith has five other small experimental and research reactors.

6. Employment

Dounreay at present employs some 2,300 and, if the PFR were to be built there, the establishment's work would begin to decline after 1971, when it came into operation. The major work on fast reactor development would be completed within about five years thereafter; and the programme of work that could be foreseen for the establishment in, say, 1976 would not amount to more than about half the present activity. If Dounreay were not to have the PFR the establishment would still be kept open for eight years or so from now, since it will be necessary to keep the present experimental fast reactor in operation for about that period; but the scientific work would taper off over the next few years.

7. In short, without PFR Dounreay would close about 1974. With it, the establishment would be reduced to not more than half its present size by 1976. After 1976, employment would be confined to the operation of the PFR as an electricity generating station, together with certain connected development activities. The total employment would amount to some 1,200, comprising 200 scientists and engineers and about 1,000 other staff, of whom about 850, mainly industrial staff, would have been recruited locally.

8. Capital Costs

Present estimates show that the capital cost of the PFR at Dounreay, together with its high voltage transmission lines, would be £30 million, which is about £3 million more than at Winfrith. The difference is mainly accounted for by the length of the transmission lines from Dounreay: a single line of about 100 miles to connect with the main grid together with strengthening the existing lines for a further 100 miles south of the connecting point. On the other hand, the Scottish electricity boards would in any case have to construct the latter lines in future years, and their discounted value would be about £2.3 million in 1970. Thus, the overall extra capital cost of siting at Dounreay would be about £0.7 million at 1970 values.
9. The Scottish Office say that the Aberdeen and Dundee areas will require an additional source of electrical power by 1975. This demand could be met in part by a PFR at Dounreay, importing the rest from the central belt; or by a new local station. In the Scottish Office view, if the PFR does not go to Dounreay, it would mean providing 250 MW capacity by uneconomic methods, which would entail additional expenditure of around £2 million by 1975, equivalent to £1.5 million at 1970 values. However, it may be unwise to rely too firmly on the PFR as a basic source of supply. This reactor, after all, will be a prototype of an advanced system; and even after the first five years of experimental operation, there may be times when further experiments are required and the reactor may not be wholly available for electricity production.

10. If the PFR were sited at Winfrith, it would equally contribute to the Central Electricity Generating Board’s (CEGB) generating capacity and save the latter some capital expenditure. But, because of the size of the system and the large number of factors involved, it is not possible to quantify this saving.

11. **Operating Costs**

Operating costs would not be significantly different at the two sites. As to the price of electricity to be delivered to the grid from the PFR, the Generating Boards cannot give firm quotations at this stage of what they would be prepared to pay; but the Scottish Boards have indicated that they see no grounds for assuming a significantly lower value per unit for output from Dounreay than from Winfrith. There would, however, be a 2 per cent greater transmission loss over the long lines from Dounreay, and the 1970 value of this loss would be about £0.6 million. The additional costs, capital and operating, of siting at Dounreay therefore total about £1.3 million on 1970 values. This balance leaves aside whatever additional costs may be incurred in providing generating capacity either in North-East Scotland or South-West England and also any loss of revenue that might arise from the increased risk of breakdowns in the transmission links from Dounreay.

12. If the PFR were to go to Dounreay much of the background physics work for fast reactor development would have to be carried out at Winfrith, where the facilities exist. And despite all the links that exist - scheduled and chartered flights, telephone and telex - there must be some loss of efficiency in having parts of the work so widely separated. Moreover, the staffing of professional grades at Dounreay has always been a difficulty and would inevitably remain so. Account must also be taken of the annual cost of maintaining two reactor development establishments instead of one. This is difficult to estimate. The cost of the additional supporting staff and associated site services which would be required if the same amount of work were spread over two sites, when it could be done at one, works out at about £4 million a year. This, however, takes no account of the loss in efficiency caused by spreading work rather thinly between two development sites which are far apart. This is extremely difficult to estimate; but Sir William Penney considers that a fair assessment would be 10 per cent of the cost of the programme. In money terms this represents some £4.5 million a year, making about £1.5 million a year in all during the period while research and development is going on at the two establishments.
13. The capitalisation of the penalties incurred by operating two research and development establishments in place of one is so dependent on assumptions about the period of time the nuclear power development programme will continue, that any calculation can be little more than a guess. However, if the PFR were to go to Dounreay, a fair volume of research and development would continue for at least ten years, so that the cumulative extra expenditure over the period due to the maintenance of two establishments would amount to at least £15 million (say £8 million at 1970 values). The net estimated saving by choosing Winfrith rather than Dounreay is therefore at least £7.6 million, or say roundly £8 million on 1970 values.

14. Technical considerations

There are two other important considerations. Other things being equal, one would not choose to site the PFR producing 250 MW of power, at the end of a long line far from the electricity demand. Secondly, a PFR at Dounreay would be remote from the major United Kingdom customer (the CEGB) and from overseas visitors whom we wish to interest in the reactor. We are anxious to keep the United Kingdom in the forefront of fast reactor development so that we can, when the time comes, sell fast reactors abroad. It is bound to produce a damaging result if, by building at a remote site like Dounreay, we lead potential overseas customers to conclude that fast reactors cannot safely be brought near to populated areas. Safety considerations were a major factor in the choice of Dounreay for the experimental fast reactor early in the 1950s, when, in particular, the difficulties and possible dangers of using sodium as a coolant were very much in mind. But we do not want to give the impression that this cautious siting policy for fast reactors is still necessary.

15. Social and other considerations

Many benefits have flowed to Caithness through the setting up of Dounreay. Unless suitable arrangements were made, the running down and eventual closure of the establishment would create a serious problem for the area. However, we should not suppose that by placing the PFR at Dounreay we should solve the area's problems. The Dounreay establishment has not so far proved to be a "growth point". There is no reason to expect that the PFR, which will be a highly capital-intensive facility, will have a different result.

16. Planning permission

Pending a decision on the site, the Authority have not been able to approach planning authorities. No difficulty would be met at Dounreay. At Winfrith, there is every reason to believe that the reaction of the planning authorities would be favourable, but there might be local objections and the need for a public enquiry.

17. Conclusion

The foregoing discussion suggests strongly that on economic and operational grounds the proper site for the PFR is Winfrith, which I recommend to my colleagues.

F. C.

Ministry of Technology, S. W. 1.

3rd February, 1966
CABINET

UNIVERSITY OF THE AIR

Note by the Lord President of the Council

The attached draft White Paper, prepared by the Joint Parliamentary Under-Secretary of State, Department of Education and Science, (Miss Jennie Lee), and the Report of the Advisory Committee are circulated for discussion by the Cabinet on Tuesday, 8th February.

H. B.

Privy Council Office, S.W.1.

4th February, 1966
The University of the Air

The fourth television network

1. The Government has decided to establish a University of the Air, that is to say, an open university providing special television and radio programmes, reinforced by correspondence courses, residential courses and tutorials, which will enable students to obtain degrees and other technical and professional qualifications. The University will be set up as quickly as possible, and, since it will require a substantial share of a new television service, the Government will authorise the construction of an additional television network - the fourth network. This will be an Ultra High Frequency (UHF) service on the 625-line standard.

2. The Government propose to set up a public corporation which will have responsibility for the management of the fourth network. It will be shared between University of the Air programmes, and other programmes presented by the corporation. The University of the Air will be financed by students' fees and sale of publications, as well as by direct Exchequer grant. It is also hoped to attract endowments as other Universities have done. The network, to the extent that it is not used by the University of the Air, will be financed from advertising revenue.

University of the Air. Scope and functions, and organisation

3. An informally constituted Advisory Committee whose members were experienced in higher education was called together in June, 1965, and asked to consider the educational scope and functions of a University of the Air. The report of this Committee, which is given in Appendix A, was accepted in principle by the Government.

4. The main proposals for the University of the Air are these -
   (a) The University of the Air is to be established with its own Vice-Chancellor and Governing Body. It will have its own administrative centre, and a nucleus of television studios, but will work in co-operation with local education authorities, educational bodies and establishments, and the broadcasting organisations.
   (b) It will offer primarily courses leading to degrees, but professional, technical, refresher and conversion courses will also be included.
(c) Courses will be so designed that students can obtain intermediate qualifications. "Credits" will be awarded when a part or stage of a course is completed, and will lead to a nationally recognised qualification.

(d) There will be no prescribed entry qualifications. All will be free, under guidance from tutors, to enter for courses, but the final degree qualifications will be of the same standard as that of existing universities.

(e) The television programmes will be broadcast for forty weeks a year at peak viewing time, i.e., in the early or mid-evening on week days, and, to meet the needs of shift workers and others who are not free in the evenings, programmes will also be broadcast during the day, including early morning, and at late night and week-ends.

(f) The framework of the organisation is outlined in Appendix C.

(g) Departmental responsibility for the University of the Air, in view of the fact that its activities will not be confined to degree work, and that other than strictly university functions and arrangements will be involved, will rest with the Department of Education and Science, and not the University Grants Committee. So, too, the financing of the University of the Air will not be subject to advice from the University Grants Committee.

Development of the fourth television network

5. It is estimated that it will take about ten years to develop the fourth television network to the point where it covers all, or practically all, of the United Kingdom. But the first transmissions are expected to start within two years. Sufficient stations to cover the main industrial centres - approximately 70 per cent of the population - could be established within four years for a capital commitment of £8-£9 million. The proportion of the population within reach of the transmissions will probably build up as follows -

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of population covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>56%</td>
</tr>
<tr>
<td>1969</td>
<td>72%</td>
</tr>
<tr>
<td>1970</td>
<td>77%</td>
</tr>
<tr>
<td>1971</td>
<td>80%</td>
</tr>
<tr>
<td>1972</td>
<td>82%</td>
</tr>
<tr>
<td>1973</td>
<td>84%</td>
</tr>
<tr>
<td>1974</td>
<td>85%</td>
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</table>
6. Excluding studios, the capital cost of the entire fourth network, in terms of additional demand on resources, is estimated at £17 million. This is on the basis that it would form part of the UHF television system shared with BBC 2. The University of the Air would carry part of this cost, depending largely on its share of broadcasting facilities. Capital costs would be spread over ten years.

The total annual costs of the University of the Air, including a share of the operating costs of the fourth network, running costs of its studios, programmes - both on television, and on radio, if local radio stations are established - and supporting services, such as correspondence courses and viewing centres, might build up to £7 million within a few years.

University of the Air Governing Body

7. While discussions are in progress about arrangements for running the fourth network, steps will be taken to secure the establishment of the University of the Air by charter, and, in consultation with educational interests, to set up a Governing Body, which will have control of, and responsibility for, the University.

Conclusion

8. With the establishment of the additional television network, there will be four networks providing programmes of general entertainment. The Government consider it essential that a substantial share of one should be allocated to the University of the Air. This will make a vital contribution to educational and cultural development in this country. Moreover, the University, by providing a wide range of short courses in professional and vocational subjects, will play an important part in the advance of technological studies. The main aim is to improve the educational, cultural, and professional standards of the country as a whole.

4th February, 1966
REPORT OF THE UNIVERSITY OF THE AIR
ADVISORY COMMITTEE

The Advisory Committee (Annex B) was called together to advise the Parliamentary Under-Secretary of State, Miss Jennie Lee, on the educational functions and content of the University of the Air, as outlined in the speech made by Mr. Harold Wilson in Glasgow on 8th September, 1963. A number of papers were submitted by members of the Committee. Discussion centred on the type of degree courses that should be offered; the nature of supporting services; and the framework of the organisation required. The Committee completed its deliberations on 4th August, 1965, and broad agreement was reached as follows:

1. The University will require its own administrative centre, and this will be the focal point of activities; but it should make full use of existing agencies, such as the Extra-Mural Departments of Universities, the Workers' Educational Association (WEA) and local education authorities.

2. The University should offer primarily courses leading to degrees, but professional, technical, refresher and conversion courses should also be included.

3. The degree course should be of general type. Honours level should not be included in the initial stage. It should cover a group of subjects that could be taken at two levels, “minor” (ordinary) and “major” (special).

The degree course might consist of five subjects, two at major level and three at minor level, the major subjects requiring two years’ and the minor subjects one year’s study. The minimum length of this degree course, on the basis that two major subjects would not be attempted at the same time, would be four years, but it could be spread over five years or more. Some members of the Committee preferred a course of four subjects, with a minimum completion time of three years for the major subjects and two years for the minor subjects. Such a course would normally require five years to complete. The main consideration is that arrangements should be flexible, so that some students could qualify in a shorter time if able to do so, and others could take longer if they found it necessary. Moreover, courses in individual subjects need not be restricted to complete years; they could extend over two winter terms, with a summer residential course in between.

It is essential that students should be given the opportunity of obtaining intermediate qualifications which should be nationally recognised. Thus certificates and diplomas should be awarded to mark the successful completion of a part or stage of the course, and “credits” should be awarded for component elements of a course which would cumulatively lead to a recognised qualification.
(4) Degrees should be conferred by the University of the Air in its own right, but in the early stages it may be necessary to operate under the aegis of an existing university or a consortium of universities. The degree should carry a specific designation in the same way as BA (Lond.) or BSc (Leeds), indicating the location of the national centre.

(5) Courses in arts and social sciences present less difficulty than those in pure and applied science, since the latter group involve a considerable amount of practical and laboratory work, and moreover demand a well-defined previous standard of knowledge and attainment on the part of the student. It is, however, important that the University of the Air should make a contribution to scientific and technological education. The subjects offered by the University for the degree course should from the outset include mathematics and the foundations of science; and it should seek, with the co-operation of local education authorities, to extend the range for students with the necessary experience and qualifications to some technological subjects, the practical and laboratory work being carried out in technical colleges on Saturdays and in vacation periods. Shorter courses in engineering, professional, and technological subjects should be provided from the start, and a Working Party should be set up to look into the possibility of establishing courses leading to degrees and other qualifications with a technological element.

(6) The degree courses would include subjects of contemporary social, industrial and commercial importance; basic subjects like English, mathematics and foundations of sciences; and a range of cultural subjects.

It is recognised that it will probably not be practicable to offer a total of more than ten main subjects, and some of the subjects might be grouped together as units of one main subject.

(7) The presentation of courses will variously involve a combination of television, radio (if local stations are established these would be particularly helpful), correspondence courses, programmed instruction, tutorials and practicals, short residential courses, and study and discussions at community viewing or study centres. The main contribution of television will be to bring lecturers of distinction within easy reach of everyone, to build up the corporate feeling of a University, and to illuminate the crucial stages of a course. It will provide an added dimension, and give the University of the Air its unique impact and coverage.

The project requires peak viewing time on a television service with national coverage. On the basis that 10 subjects would require a minimum of 20 half-hour programmes each week for a 40 week year, the television time required would be at least two hours at peak viewing time on five evenings a week, with repeats during the day, early morning, late evening, and at week-ends. Programmes should be recorded for repeats on local closed-circuit television and by other means. Additional time, some of which would also be peak viewing time, would be necessary for the shorter courses mentioned in paragraph (5).
(8) Enrolment as a student of the University should be open to everyone on payment of a registration fee, irrespective of educational qualifications, and no formal entrance requirement should be imposed. It would be necessary to provide an advisory or information service for intending students, which would help them to select suitable courses, for some of which a minimum starting level of qualifications would be advisable.

(9) An estimate of the potential audience can only be guess-work, and it can be assumed that a relatively small proportion of students would complete a full degree course. But the viewing audience would be considerable, and completion of only part of a course and the gaining of an intermediate qualification could be of great benefit to the individual and to the community. If the present rate of technological and cultural advance is to be sustained, it will depend not only on those who have reached the highest educational level, but on a population that is generally literate and well-informed.

(10) The University should arrange for regular surveys to assess the effectiveness of courses, and the size and type of audiences following them.

(11) The University will require a substantial administrative centre, with a staff of about 40-50 of professional calibre.

(12) The following organisational framework is suggested:

(a) The University of the Air should have its own Vice-Chancellor, and a Governing Body or Council, meeting two or three times a year. The Governing Body would be drawn largely from universities and other establishments of higher education, local education authorities, extra-mural and adult education organisations, and would include representatives of the broadcasting organisations.

(b) The policy-making bodies would be an Academic Board and an Examining Board. In addition, it might be advisable to have an Academic Assembly, where those working in the field could express their views.

(c) The University will require, at the senior level, a Director of Studies who would be responsible for the co-ordination of all the various teaching approaches that were used; a Registrar, who would also be responsible for an advisory service to students; Heads of various departments, e.g., Correspondence, Research and Assessment, Publications, and Operations (television, radio, films); and a group of highly qualified Heads of Faculties, who would be responsible for the planning of courses in their own subjects and for the selection of lecturers and tutors. They will, of course, require the support of efficient administrative machinery.

(d) While the University will need a number of regional centres, and will make use of existing agencies, including local education authorities, the WEA and Extra-Mural...
Departments, it will not be enough to co-ordinate the activities of a number of separate agencies. It is hoped that existing educational institutions will co-operate in the production of courses and lend staff when needed, but the University will best achieve its aims by firm central control of a fully integrated operation.

The central authority will require a nucleus of production facilities, including studios, which will be entirely at its disposal for the production of programmes; but many of the programmes will be made elsewhere. The central organisation should deal directly with outside agencies, and retain final responsibility for the planning and presentation of programmes and courses.

Tutors will be employed by the central organisation and correspondence will be centrally organised and monitored.

(c) The regional centres will be responsible for liaison with universities, colleges, extra-mural departments, etc., in their areas and for making arrangements for facilities such as libraries, laboratories, and viewing/listening posts.

(13) Departmental responsibility for the University of the Air, in view of the fact that its activities would not be confined to degree work, and that other than strictly university functions and arrangements would be involved, should rest with the Department of Education and Science, rather than with the University Grants Committee.

THE UNIVERSITY OF THE AIR ADVISORY
COMMITTEE MEMBERS

MISS JENNIE LEE, M.P (Chairman), Joint Parliamentary Under-
Secretary of State, Department of Education and Science.

PROFESSOR K. J. ALEXANDER, Professor of Economics, University of
Strathclyde.

LORD ANNAN, Provost, King’s College, Cambridge.

DR. E. W. BRIAULT, Deputy Education Officer, Inner London
Education Authority.

DR. BRYNMOR JONES, Vice-Chancellor of the University of Hull.

MR. D. J. G. HOLROYDE, Director, University of Leeds Television
Centre.

MR. PETER LASLETT, Fellow of Trinity College, Cambridge.

MR. N. I. MACKENZIE, Lecturer in Sociology, University of Sussex.

MR. A. D. C. PETERSON, Director, Department of Education,
University of Oxford.

DR. O. G. PICKARD, Principal, Ealing Technical College.

PROFESSOR F. LLEWELLYN-JONES, Principal, University College of
Swansea.

MR. J. SCUPHAM, Retired Controller of Educational Broadcasting,
British Broadcasting Corporation.

PROFESSOR H. WILTSHERE, Professor of Adult Education, University
of Nottingham.
UNIVERSITY OF THE AIR. DIAGRAM OF POSSIBLE ORGANISATIONAL STRUCTURE

** Governing Body **

- **Academic Board**
  - **Academic Direction** (Director of Studies)
  - **Administration** (Registrar)

- **Academic Assembly**
  - **Operational**
  - **Correspondence and tutorial**

- **Examinining Board**
  - **Publications**
  - **Research and assessment**

** Functions:**
- **Academic Direction** (Director of Studies): Co-ordination of various teaching media; academic aspects of production; responsibility for individual subjects and group of subjects.
- **Administration** (Registrar): Central staff; relations with outside agencies; liaison with regional centres.
- **Operational**: Production of programmes on television, radio, film.
- **Correspondence and tutorial**: Marking; examinations; recording of students' progress; recruitment of tutors, organisation of residential courses and of laboratory facilities. Advice to students.
- **Publications**: Production of pamphlets and reading lists.
- **Research and assessment**: Research into and assessment of size and type of audience, and effectiveness of courses.

**Regional Centres**

**Functions**—under the direction of the national centre—provision of local and regional facilities, e.g., closed circuit television, local radio (when established), community viewing centres, laboratories, libraries, etc.
CABINET

SITING OF PROTOTYPE FAST REACTOR

Memorandum by the Secretary of State for Scotland

The Minister of Technology has set out in C(66) 24 certain of the considerations, especially the financial calculations, that should be taken into account in deciding whether to build the Prototype Fast Reactor (PFR) at Dounreay or at Winfrith. The present paper comments on some of the Minister's arguments, and deals with the social considerations which are the main element in the case for Dounreay.

2. Paragraph 11 of the Minister's paper brings out a figure of £1.3 million at 1970 values, as the additional cost of siting at Dounreay. This is offset by the £1.5 million that would be saved, as explained in his paragraph 9, by avoiding the inefficiency inherent in alternative methods of providing power for the North of Scotland. What brings his cost balance down against Dounreay is the assessment in his paragraphs 12 - 13 that the loss of efficiency due to splitting reactor development activities between Dounreay and Winfrith would cost £1.5 million a year for a period of 10 years, or £18 million at 1970 values. The paragraphs however make clear the speculative nature of at least half the cost assumed for loss of efficiency; and this element of uncertainty must detract from the force of the argument.

3. In attempting a comprehensive balance sheet of cost, moreover, account has to be taken of expenditure incurred in seeking to promote alternative forms of employment for the families concerned, almost all of whom live in the near-by town of Thurso which has increased in population from 3,300 in 1954 to 9,200 now. Paragraph 6 of the Minister's paper indicates that, in order to maintain employment in the area at its present level, some 1,100 jobs would in any event have to be provided by 1976, even if the PFR goes to Dounreay; and an additional 1,200 if it does not, in which event all 2,300 would be needed by 1974.

4. With every effort by the Highlands and Islands Development Board, there will be very great difficulty in providing the 1,100 jobs needed by 1976 at locations that can be served by the present houses and schools in Thurso, and there will be a serious risk of starving other parts of the Highlands of essential development. Substantial provision by an earlier date, with a further 1,200 jobs by 1974, is improbable in the extreme, unless some other large scale Government establishment is located in the area; and I do not myself know of any establishment, existing or prospective, that might serve this purpose.
5. Even small projects in the Highlands will cost the Exchequer some £1,500 per job, so that a theoretical figure for outlays to make good the loss of the extra 1,200 jobs would be little short of £2 million—a substantial offset to the firm element in the £8 million mentioned in paragraph 2 above. But this is an unreal figure: the only project of the necessary scale recently located in the Highlands is the Fort William Pulp Mill, which cost the Exchequer a £10 million loan (with relief of interest up to £1.3 million) for 1,200 jobs in the Mill itself.

6. The loss of the extra 1,200 jobs would directly affect something like one-third of the whole population of Thurso, and I cannot accept that it would be a solution to let the local population run down to that extent. There would be the gravest social and political objections to this course, acquiescence in which would fly in the face of all we as a Government have said and done about the Highlands. Moreover, £7.5 million of public money has been spent since 1954 in providing modern homes, schools and other services for the present population; it would be a clear waste of money to have to re-provide these elsewhere. I am not aware that considerations of this kind apply with anything like comparable force at Winfrith, which, unlike Dounreay, is not in a development area.

7. I do not see why the role of the PFR as a showpiece for foreign buyers need be seriously affected by locating it at Dounreay; they could certainly be flown there in two or three hours from London. Nor should such a location imply doubts about the safety of the PFR, it would surely seem entirely rational that it should have been built alongside the experimental reactor on which it is based; and when the question of seeking foreign sales arises, we shall no doubt have firm proposals to build commercial Fast Reactors in more populous areas elsewhere in Britain.

8. In the light of the considerations set out in this memorandum, I ask my colleagues to decide that the PFR should be built at Dounreay.

W. R.

Scottish Office, S. W. 1.

3rd February, 1966
4th February, 1966

CABINET

UNIVERSITY OF THE AIR

Memorandum by the Lord President of the Council

The Ministerial Committee on Broadcasting have considered proposals for the establishment of a University of the Air in the light of:

1. the recommendations of an Advisory Committee convened by the Parliamentary Under-Secretary of State for Education and Science to advise on educational functions and content;

2. an interim report by the Official Committee on Broadcasting on the means by which a University of the Air might be organised and financed.

Functions of the University

2. The Advisory Committee, in brief, has suggested:

1. The University should confer its own degrees and have its own Vice-Chancellor and Governing Body, together with Academic Board, Examining Board and Academic Assembly, as well as the necessary Director of Studies, Registrar and supporting academic and administrative staff. It would have its own administrative centre and regional centres and would seek to make use of existing local educational agencies and institutions. The Central Authority would have its own production facilities, including studios, and retain final responsibility for the planning and production of programmes and courses.

2. The University should offer primarily courses leading to a degree, but professional, technical, refresher and conversion courses should also be included. The degree course would be of a general type, extending over four or more years, with the opportunity of obtaining intermediate qualifications at each stage. Enrolment would be open to all on payment of a registration fee, irrespective of educational qualifications.

3. The presentation of courses will variously involve the combination of television, radio, correspondence courses, programmed instruction, tutorials and practicals, short residential courses and study and discussions at community viewing or study centres. On the basis of ten main subjects offered, the television time required would be at least two hours at peak viewing times on five evenings a week for a 40-week year, with repeats during the day, early morning, late evening and at weekends, with additional time for shorter courses. (The Official Committee considered that in all some 14 hours of peak viewing time, and 18 hours off peak time, would be required each week for a 40-week year).
(6) Departmental responsibility for the University of the Air should rest with the Department of Education and Science.

Need for Fourth TV Network

3. The Committee consider that a University of the Air on the above basis would necessitate the parallel establishment of a fourth television network because there is no other practicable means of obtaining peak hour transmission on the scale required for the University.

Timetable and Coverage

4. From the time of approval, the first transmission on the fourth network might take place within two years, but it would take 8-10 years to attain national coverage. Some two years would be required for preparatory work in connection with the University and transmission of University courses might thus start during the academic year 1967-68. Within the areas covered the proportion of the population with suitable sets to receive UHF in addition to VHF transmissions, might rise from 25 per cent in 1968 to 55 per cent by 1970, and over 90 per cent by 1976. It is, however, uncertain how many of the viewers with suitable sets would be prepared to purchase the necessary UHF aerial. Experience with EBC 2 suggests that the present proportion may be between a half and two-thirds. The Committee considered that it would be highly desirable to develop a new service as far as possible simultaneously in the north and south.

Cost

5. While emphasising that their estimates were provisional and might need revision in the light of discussions with the BBC and ITA, the Official Committee considered that the order of expenditure involved in establishing and running the University of the Air and a fourth television network shared between the University of the Air and another broadcasting organisation might, in current money values, be as shown in the Annex.

Size of Audience

6. It has not been possible to make any valid estimate of the size of the potential "eavesdropping" audience for the University of the Air programmes, much less of the number of serious students who might proceed to degrees or intermediate qualifications. The audience for existing educational programmes provide no safe guide. The Advisory Committee thought that the number of general viewers might be "considerable" but that the proportion who would proceed to degrees would be "relatively small". The Broadcasting Authorities do not consider that the total viewing audience attracted would be very substantial (figures of 50-100,000 have been mentioned), and its size would be restricted by the academic nature of the courses; by the limitations imposed by the relatively slow spread of the UHF network and, within that, of the number of households equipped to receive UHF transmissions; and, during peak hours, by domestic competition for alternative programmes of entertainment since very few households have more than one set (community viewing centres would, however, also be available).
Source of Finance

7. Since public expenditure considerations alone rule out the establishment of a fourth network financed by the Exchequer, this network must, outside the hours required for transmission of University programmes, be operated by commercial interests, and the Committee considered how far finance from such interests might be invoked to cover the cost of the University also.

8. The ITA are understood to be of the view that a fourth television network, shared with the University of the Air, would earn little or no additional revenue from advertisement, and that the cost of the network and the University together would be more than enough to absorb the whole of the programme companies' present profits before taxation but after payment of the levy. It therefore seems unlikely that the programme companies would have an interest in any scheme which relied wholly or mainly on advertising revenue for financing a University of the Air based on the fourth network. Discussion with the ITA may indicate the extent (if any) to which some contribution might be made towards the cost of the University (and the Committee considered that announcement of the Government's intention to proceed with the fourth network would give the programme companies a strong inducement to participate), but further prolonged negotiation might be required before a final view could be formed.

9. However, the majority of the Committee are strongly of the view that it would threaten the reputation of the University and imperil its standards if it were made in any degree dependent on the advertising revenue of the authority or programme companies operating the television network. Accordingly the majority of the Committee consider that, while free transmission of the University programmes by the authority operating the network would be acceptable and necessary, the programme and administrative expenses of the University itself should be met from a Fund to which industrialists and foundations such as the Ford Foundation should be invited to contribute; the balance of expenditure, after taking account of receipts from registration fees and profits from sale of books, etc., would have to be met by the Exchequer. Though noting that the allocations for public expenditure approved by the Cabinet up to 1970 include no allocation for the University of the Air, the majority of the Committee would consider it unacceptable that the University should be established at the cost of a reduction in existing educational services. No estimate can be made of the income likely to be received from other sources and it is not, therefore, possible to estimate how much of the running costs of the University (£5 million to £6 million a year, excluding transmission costs) would fall on the Exchequer.

Organisation

10. The Committee would prefer to see the fourth network placed under the control of a new Authority and organised on the lines recommended for Independent Television by the 1960 Committee on Broadcasting (these recommendations were, broadly, that the Authority should itself plan the programmes, sell advertising time and purchase the programmes from the programme companies). The Authority would be required to provide transmission facilities free of charge to
the University, which would be independent of the Authority. The Committee recognise, however, that there are certain practical advantages in allocating the new network to the existing Independent Television Authority (for example in facilitating the shared use with BBC of a single UHF transmission system), provided that the independence of the University is guaranteed, and have reached no conclusion pending further discussion between the Official Committee and the ITA.

The Next Step

11. Having regard to the cost of the project, the uncertain extent to which this would fall on the Exchequer, the absence of any provision within the public expenditure programme, and the impossibility of estimating the likely size of the audience and the number of students, a minority of the Committee thought that consideration should be given to the possibility of a pilot experiment, using spare hours on existing services. The majority, however, considered that an experimental approach would destroy much of the impact of the University on the public and that, subject to acceptance of its financial implications for public expenditure, the project should be accepted in principle. The position of Treasury Ministers is fully reserved.

12. The Cabinet are invited to decide whether —

(1) because of the public expenditure implications and uncertainty about the size of audience and number of students, further consideration should be given to the possibility of conducting a pilot experiment using spare hours on existing services,

or whether —

(2) the implications of the University for public expenditure should be accepted and a firm intention now be announced to establish a University of the Air on the lines described in paragraph 2 of this memorandum, together with a fourth television network, and if so whether negotiations should proceed on the basis that the new network would provide free transmission facilities for the University, but would not otherwise contribute towards its cost.

H.B.

Privy Council Office, S.W.1.

4th February, 1966
### ANNEX

<table>
<thead>
<tr>
<th></th>
<th>University of the Air</th>
<th>Residual Interests</th>
<th>Total for fourth network and University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital (Note 1)</td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
</tr>
<tr>
<td>Share of cost of fourth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>network</td>
<td>12</td>
<td>18</td>
<td>30 (Note 2)</td>
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<tr>
<td>Administrative centre</td>
<td>0.4</td>
<td>-</td>
<td>0.4</td>
</tr>
<tr>
<td>Studios</td>
<td>2.0</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Television and radio sets for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>viewing centres</td>
<td>0.1</td>
<td>-</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>14.5</td>
<td>28</td>
<td>42.5</td>
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</table>

### Annual Costs

<table>
<thead>
<tr>
<th></th>
<th>£m.</th>
<th>£m.</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating costs of transmitters</td>
<td>1</td>
<td>1.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Post Office links</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Administrative centre</td>
<td>0.3</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td>Regional centres</td>
<td>0.2</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>Operating costs of studios</td>
<td>1.3</td>
<td>25 (Note 3)</td>
<td>28.1</td>
</tr>
<tr>
<td>Television programmes</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Radio programmes</td>
<td>0.2</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>Supporting services</td>
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<td>-</td>
<td>1.0-2.0</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6-7</td>
<td>26.8</td>
<td>32.8-33.8</td>
</tr>
</tbody>
</table>

**Note 1** The capital cost would be spread over some eight to ten years.

**Note 2** It is assumed that the fourth network would be established as part of the Ultra High Frequency (UHF) television system shared with BBC 2; and that the total cost of BBC 2 and the fourth network would be shared equally between the two. This would give a figure of £30 million as the apportioned capital cost of the fourth network. But the additional expenditure, i.e., the additional transmitters, equipment, etc., required solely for the fourth network would be considerably less than this - probably in the region of £17 million.

**Note 3** This figure for studio and programme costs is based on the assumption that, as on the present independent television network, a number of programme companies will in due course use the fourth network, producing several different programmes at the same hours in different regions.
CABINET

FARM PRICE REVIEW

Memorandum by the Chancellor of the Duchy of Lancaster

4th February, 1966

I have to report a breakdown in attempts to reach agreement in the Ministerial Committee on Farm Price Review on the extent of the discretion to be given to Agricultural Ministers in negotiations on this year's farm price review.

Last year's review

2. Last year, it will be remembered, the review gave the farmers about £10 million. As their costs were expected to increase by about £30 million and their efficiency by £25 million, this required them to meet about two-thirds of increased costs out of increased efficiency. The review had to be imposed, and the Cabinet will remember not only the row but the firmness and success with which the Minister of Agriculture handled it. Because the weather was bad last summer, total farm incomes fell by £12 million in 1965-66; had the weather been "normal", they would have risen by about £12 million. Milk, however, turned out rather better than the farmers feared: though the total size of the dairy herd had not significantly changed, yields were high, as there was plenty of grass.

The policy objective

3. Farmers' costs and their efficiency are both expected to increase by about £30 million this year. This year's review is the first since the publication of the National Plan. Clearly the review must be seen to be consistent with, indeed to further, the objectives for agriculture laid down in the Plan. There is no disagreement on this, or on the corollary of it: that at this review the main emphasis should be on encouraging beef production. The main area of disagreement is on the amount of additional support that is needed and justifiable this year to achieve that objective, and on the amount of room for manoeuvre that Agricultural Ministers should be given for negotiations with the farmers.

4. An expansion of beef production entails an increase in the dairy herd, whose calves provide over two-thirds of our home-grown beef. So in order to encourage beef production we have not only to give direct support in guaranteed prices and subsidies for beef: we have also to give indirect support by encouraging milk production. Incentives to beef production therefore need to be distributed in a combination of three ways:
(1) an increase in the guaranteed price of fat cattle (every extra 1/- costs the Exchequer £1.2 million);

(2) the introduction of a subsidy on beef cows (the Agricultural Ministers' proposal for a subsidy of £7 to £8 per head would cost the Exchequer £3 million);

(3) an increase in the standard quantities and/or guaranteed price of milk (each ½d. a gallon on the guaranteed price of milk brings in £4.4 million and costs the consumer ½d. a pint for two months).

The main area of disagreement

5. The area of disagreement can be set out in a table:

<table>
<thead>
<tr>
<th>Overall limit on negotiations</th>
<th>Increase in guaranteed price of fat cattle</th>
<th>Beef-cow subsidy</th>
<th>Guaranteed price of milk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shillings</td>
<td>£m.</td>
<td>£m.</td>
</tr>
<tr>
<td>Agricultural Ministers</td>
<td>30</td>
<td>10</td>
<td>12.0</td>
</tr>
<tr>
<td>Board of Trade</td>
<td>23/25</td>
<td>8/10</td>
<td>9.6/12.0</td>
</tr>
<tr>
<td>Department of Economic Affairs</td>
<td>20</td>
<td>8</td>
<td>9.6</td>
</tr>
<tr>
<td>Treasury</td>
<td>11</td>
<td>10</td>
<td>1</td>
</tr>
</tbody>
</table>

*The figures in this column are different from the sum of the figures in the other columns, because these figures include other proposals for changes in guarantees and grants besides those on beef and milk.

6. The Treasury think that the overall objectives, and the objectives for beef production, can be achieved with an increase of £11 million. They do not object to the proposed beef-cow subsidy, provided that the combined cost of the subsidy and the increase in the guaranteed price of fat cattle does not exceed £10 million: in other words, they would let the Agricultural Ministers have their beef-cow subsidy if the increase in the guaranteed price of fat cattle did not exceed 6/- (costing £7.2 million). If, however, the Agricultural Ministers would agree to limit the increase in the guaranteed price of milk to ½d. a gallon, the Treasury would be prepared to go up to 8/- on the guaranteed price of fat cattle (raising their overall limit from £11 million to £13.4 million).

7. The Department of Economic Affairs are particularly anxious to keep to a minimum the increase in the retail price of milk. ½d. a pint on the retail price is an increase of 5 per cent (though how much smaller could an increase be?). ½d. a gallon on the guaranteed price means introducing the extra ½d. in December 1966; 1½d. a gallon on the guaranteed price means introducing the extra ½d. in October 1966. They consider that 1½d. a gallon is as far as we should go. Their overall figure of £20 million would increase farmers' incomes (which have
to cover the costs of increased investment as well as personal incomes) by about 5 per cent; they consider that more than that would be too generous in terms of prices and incomes policy.

6. The Commonwealth Relations Office fear that demand for liquid milk and manufactured milk products is not sufficiently elastic (particularly if the price is increased) to absorb the whole of any increase in domestic milk production that may result from an increase in the guaranteed price of milk. They fear that too great an increase may adversely affect the market for imported butter and thus prejudice our relations with countries with whom we have agreements on butter imports. They point out that we have just increased the Irish quota for butter imports. They would therefore prefer the increase in the guaranteed price of milk not to exceed 1d. per gallon.

9. The Agricultural Ministers believe that, if they started (let alone finished) with an offer of £11 million (as suggested by the Treasury), it would be regarded as derisory, and negotiations would break down. They would like complete discretion, without formal limit, to do the best they can within the general lines of their own proposals. They do not think that they could start on a figure of less than 1d. a gallon on the guaranteed price of milk, and would be reluctant to be given no leeway to move up to 1½d.; they would however be prepared to accept the limit of 1d. a gallon on milk if they could have another million or two pounds for manoeuvre on the cattle price and beef subsidy. They believe that increased consumption of liquid milk and manufactured milk products would take up the increase in domestic milk production without significantly cutting into the market for imported milk products (particularly butter).

Other points of disagreement

10. There are other points on which no agreement has been reached. For instance, the Treasury, arguing on the basis of substantial increase of acreages and yields in 1965, want to see the profitability of wheat and barley reduced by cuts in guaranteed prices. The Agricultural Ministers point out that the 1965 crops were planted before the 1965 review, the effect of which is not reflected in the figures on which the Treasury rely; latest returns show a fall of about half a million acres in this year's plantings of winter wheat. But we can probably settle this and other points in the Farm Price Review Committee, if we have rulings on the overall limit on negotiations and on the levels of support for beef and milk.

Conclusions and suggestions

11. Discussions in the Farm Price Review Committee have narrowed the area of disagreement from a range between £11 million and £30 million overall to a range between about £13½ million and about £27½ million (the comparable figures for beef and milk are £18.8 million to £28.4 million, reduced to £21.4 million to £26 million).

12. My own conclusions are:

(1) We should set an overall limit to the total cost we are prepared to accept, but leave the Agricultural Ministers as much room for manoeuvre as possible within that.
In the light of the last review and the drop in farm incomes last year, a limit of £11 million, which would again require the farmers to meet two-thirds of the increase in costs out of the proceeds of greater efficiency, would be too tough. It would be a bad start for the Plan, where the key word is expansion.

On the other hand, if we are too generous this year we shall have less to offer in later years. The industry might well prefer a series of moderately acceptable reviews, giving confidence in steady expansion, to one fat year followed by several lean years.

What we do this year will be judged by comparison with what we did last year. So the starting point is low, and even a fairly tough settlement will seem to be a relative improvement.

We should not increase the guaranteed price of milk by more than id. a gallon this year.

My own suggestions, which I put forward for myself alone, not as Chairman of the Farm Price Review Committee, are therefore as follows:

1. We should endorse the general policy objectives for this review (see paragraph 3).

2. On milk, we should ask Agricultural Ministers not to offer more than the equivalent of id. a gallon in the guaranteed price. (The emphasis should be on beef: extra milk is, so to speak, a by-product, which we do not need for itself: it is a matter of getting the balance right).

3. We should fix a final overall limit of, say, £20 million (I give this figure as a basis for discussion) for this year's review. £20 million would give an average increase of 5 per cent in farmers' incomes.

4. We should invite the Agricultural Ministers on this basis to suggest to the Farm Price Review Committee what the opening offer should be, in total and in detail, and what distribution they would aim for in a final offer of £20 million (or whatever other figure we fix under (3)).

5. The Agricultural Ministers should not however be bound by their detailed proposals to the Farm Price Review Committee; if within an overall figure they saw advantage in offering more in one place and less in another, they should be free to do so.

There will be no hope of an agreed review on this basis. The President of the National Farmers' Union has "done an Adenauer", and revoked his intention to retire. He was ill during last year's review and this time will be determined to show that he is the real heavyweight champion. We must therefore put the Agricultural Ministers in a strong position.

D.H.

70, Whitehall, S.W.1.

4th February, 1966
CABINET

LEASEHOLD REFORM

Memorandum by the Lord President of the Council

Previous consideration

The Cabinet considered on 23rd December (CC(65) 73rd Conclusions, Minute 2) proposals for leasehold reform, the principal features of which were that holders of long leases purchased or inherited with more than 21 years to run would be entitled to the extension of the lease to 999 years and to enfranchise at the market value of the freeholder's interest as depreciated by the extension. Holders of leases purchased with less than 21 years to run would have a right to enfranchise at the market value, but with a statutory tenancy instead of an extension of the lease. The Cabinet considered that these proposals, and in particular the 999 year lease, were too confiscatory in effect and invited the Ministerial Committee to examine the problem again with particular regard to the need to give security and stability to the leaseholder who had occupied his house for a long time, to the desirability of providing a shorter extension of the lease and to means of providing a fair price for enfranchisement. The scheme should if possible, be such that it could be applied against local authorities.

New proposals

2. The Committee have considered a number of proposals and have agreed, subject to reservations by the Lord Chancellor and the Attorney-General, to recommend the following scheme:

(i) Qualification

A qualified leaseholder should be one who

(a) holds a lease, originally granted for more than 21 years, at a ground rent, of a house below Rent Act limits of rateable value;

(b) has occupied the house as his residence for at least five years.

Leaseholders whose leases have expired since 8th December, 1964, and are still occupying on a statutory tenancy would benefit from the scheme.
(2) Extension of lease

A qualified leaseholder should have the right to an extension of the lease by 50 years, with no right to a further extension thereafter, at a full modern ground rent which would be further reviewed after 25 years of the extension.

(3) Enfranchisement

A qualified leaseholder will also have the right to enfranchise his lease at any time when he is qualified, on payment to the freeholder of the market value of the freeholder's interest as depreciated by this extension, excluding any development value, which should be dealt with separately.

The effect of these proposals as compared with prices paid for enfranchisement in different parts of the country in recent years is shown in the Annex.

The sale of the freehold interest will in any case have to be reported to the Land Commission so that they may determine whether there is development value in the site. If they do so, there should be added to the price of enfranchisement the value of the freeholder's development rights as they exist at the time of enfranchisement, i.e. not the full potential development value but that value 'blanketed' by the unexpired period of the lease. The freeholder would pay levy on this sum.

(4) Rights reserved to the freeholder

(i) During the original lease the freeholder should have the right to resist in the county court either enfranchisement or the extension of the lease on the ground that he wants the property for occupation by himself or his family and would suffer greater hardship from inability to recover possession than would the leaseholder from inability to exercise his rights under the scheme. If he succeeds he pays to the leaseholder the value of the extended leasehold interest to which the leaseholder would otherwise have been entitled.

(ii) During the extension the freeholder should, on cause shown, have the right to obtain possession for redevelopment compulsorily by buying out the extended lease.

The case for these proposals

3. These proposals seem to the Committee to have the following advantages:-

(i) The principle underlying the policy of leasehold enfranchisement is that in equity the bricks and mortar belong to the qualified leaseholder and the land to the freeholder. The 50 year extension of lease effectively separates these interests. The market value of the freeholder's interest in a lease with 50 years or more to run cannot include anything for the reversionary value of the bricks and mortar. At the same time,
if he is given the right to a fully modernised ground rent after the expiry of the present lease, he is not being deprived of any of the reversionary value of the land. Market value depreciated by such an extension of lease is therefore bound to yield a fair price for enfranchisement, giving the freeholder neither more nor less than the value of his interest in the land for existing use. This, plus 'blanketed' development value, if any, can be confidently defended as fair treatment for the freeholder once the principle on which we are working is accepted as equitable.

(ii) The price will in the great majority of cases be less than the market value which the freeholder's interest has under the existing law. It will sometimes be the same (e.g. where the reversion is still too distant to affect market value); but it can never be more. (The trouble with various formulae we examined for capitalising updated ground rent was that they either produced a price much higher in many cases than present market values, or a price which in many cases confiscated some of the value of the land, or both.)

(iii) The scheme is less confiscatory than the original proposals, because the freeholder will not be deprived of any 'blanketed' development value there may be. In so far as he gets less than what his interest is worth under the present law, the difference represents the loss of the reversionary value of the bricks and mortar; and this is a form of 'confiscation' which we are prepared to defend on principle.

(iv) To give an extension of 50 years, rather than an extension to 999 years, looks better presentationally, since 999 years is excessive as a measure of protection for the leaseholder in his home, and the shorter extension will not interfere so much with desirable redevelopment.

(v) By treating development value separately and increasing the qualifying period of residence from three to five years, the scheme goes further towards discouraging speculators and, in the view of the majority of the Committee, makes it possible to abandon the distinction in the original proposals between leaseholders who bought leases with more than 21 years to run and those who bought with less. This distinction has had no place in our public discussion of enfranchisement and most of us on reconsideration see considerable objections to it.

4. The scheme will undeniably make some demand on the services of valuers, but we think that the demand will be limited by the fact that once a price, or a modernised ground rent, has been agreed for one property in an area it is probable that a similar price will be accepted for similar properties. We would expect that prices would normally be negotiated without difficulty and that few cases would have to go to any form of arbitration.

Minority view

5. In the view of a minority of the Committee, it goes too far to say that in equity the bricks and mortar belong entirely to the qualified leaseholder in all cases. They accept this for leaseholders who acquired (by purchase or inheritance) a long tenure of the house, but hold that if the leaseholder only came on the scene late in the life of the lease, paying for this short-term interest a price much lower than bricks-and-mortar value, he cannot be said in equity to have acquired a title to the full value of the
bricks and mortar in perpetuity. They therefore propose, as a variant of the bricks-and-mortar principle, that the price paid by the leaseholder for enfranchisement should vary according to the length of leasehold tenure which he originally bought. If this principle were accepted, it could be made effective by making the price of enfranchisement the market value of the freeholder's interest depreciated by the assumption that at the date of enfranchisement the lease still has as long to run as it had when the leaseholder acquired his leasehold interest. In effect, this means that on enfranchisement he pays so much of the value of the fee simple as he did not buy before (because it was not then for sale). This can never be more than the value of the freeholder's interest under the present law, and in the case of leaseholders who came on the scene when the lease still had many years to run, it naturally yields the same result as the majority proposal.

Public Authorities

6. Not the least of the advantages of the scheme now proposed by the majority of the Committee is that they believe that it can be made acceptable to public authorities. We propose that in relation to public authorities the scheme should be subject to the following modifications:

(i) **Land Commission.** Where a lease is held on crownhold terms, the covenants would continue to operate so that the freehold would also be on crownhold terms, and the Commission would retain all development value.

(ii) **Local authorities.** Leaseholders enfranchising against a local authority should be debarred from acquiring development rights. If the authority wanted later to acquire the site for development the compensation would thus not include development value.

Where the local authority had acquired land for early development, the Minister of Housing and Local Government should have discretion to forbid enfranchisement, since it would be absurd that the leaseholder should be able to enfranchise only to have the property compulsorily purchased soon afterwards.

(iii) **Universities.** Leaseholders holding from universities and other public authorities should be put in a similar position to those holding from local authorities.

(iv) **Crown Estate and National Trust.** Land held inalienably by the National Trust and land leased by the Crown Estate and the National Trust on special terms designed to ensure the preservation of houses and land of special architectural, historic or amenity value to be excluded from the scheme.

(v) **Housing associations** to be excluded on the ground that it is contrary to the nature of a housing association that its members should be able to enfranchise against it.

(vi) **Royal Duchies** to be excluded from the statute, but to allow enfranchisement voluntarily on the terms applied to private freeholders.
7. Subject to reservations on the subject of leases bought with less than 21 years to run, the Ministerial Committee believe that the scheme outlined above effectively fulfils our pledge "to enable householders with an original lease of more than 21 years to buy their own houses on fair terms"; that it is no more confiscatory than is necessary to achieve our purpose of transferring the reversionary value of the bricks and mortar from the freeholder to the leaseholder; that it meets the needs of leaseholders in Wales for relatively cheap enfranchisement or security of tenure; and that it can be explained and defended in the country and in Parliament.

8. If the proposals are approved we propose that a White Paper should be submitted to the Cabinet next week with a view to publication in time to be debated in the House of Commons on 24th or 28th February. In the meantime the Ministers concerned will continue to work out matters of detail such as the arrangements for preserving covenants, and the drafting of the Bill can be put in hand.

9. We accordingly ask the Cabinet to approve proposals that -

(i) holders of long leases who have lived in the property for 5 years should be entitled -

(a) to an extension of the lease for 50 years at a modernised ground rent, subject to review after running for 25 years;

(b) to enfranchise at the market value of the freeholder's interest as depreciated by the extension, development value, if any, to be purchased separately as 'blanketed' value;

(ii) the freeholder should have the rights -

(a) to oppose extension or enfranchisement on the ground that he wishes to occupy himself and would suffer "greater hardship";

(b) to recoup for redevelopment during the extension on payment of compensation;

(iii) the scheme should apply to public authorities subject to the modifications indicated in paragraph 5 above.

H. B.

Privy Council Office, S.W.1.

8th February, 1966
The figures below relate to properties in various parts of the country which have recently been enfranchised. None of them has any development value.

<table>
<thead>
<tr>
<th>Case</th>
<th>Start of Lease</th>
<th>Estimated Vacant Possession Value</th>
<th>Price Paid for Enfranchisement under existing law</th>
<th>Price for Enfranchisement under proposed scheme</th>
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<tr>
<td>1</td>
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<td>£750</td>
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* These values include "marriage of interests" value, that is, the additional value which a leaseholder, as distinct from a third party, would be prepared to pay to gain possession of the full fee simple.
9th February, 1966

CABINET

LEASEHOLD REFORM

Memorandum by the Lord Chancellor

Introductory

I regret that I disagree with the majority of the Ministerial Committee on Legislation on Rent, Land Commission and Leasehold Enfranchisement on several of the proposals outlined in the memorandum by the Lord President of the Council (C(66) 29). In December (C. C. (65) 73rd Conclusions, Minute 2) the Cabinet were unable to accept proposals submitted by the Ministerial Committee (in C. (65) 184) because it considered them too expropriatory. I am convinced that the present proposals would result in considerably more extensive expropriation than the earlier proposals. It is true that in the limited number of cases where the property has a substantial development potential, compensation under the present proposals will be higher than under the earlier ones; but in all other cases it will not be significantly different (there is no material difference between the effect of a 50 year extension and a 999 year extension on the freeholder's interest) and the number of properties to which the present proposals will apply will be very much greater. In December it was proposed to exclude persons who had originally purchased a term of 21 years or less (C(65) 184, paragraph 2(3)); now, subject only to a residential qualification of five years, all late-comers are to be included. As houses change hands on average once in seven years, a very large number of leasehold properties disqualified under the earlier proposals are now included.

Leaseholders on short terms

2. Our legislation is intended to be a social measure to consolidate the leaseholder's stake in his house and to prevent him being deprived of the value of the property he has bought and paid for. It is not designed simply to confer benefits on every leaseholder, still less to expropriate all reversionary rights. We therefore propose to exclude leases originally granted for 21 years or less; only long leases qualify. But the interest acquired by the leaseholder is the same whether he originally bought a new lease for a short term or the remainder of an existing lease for the same term. In neither case does he pay for the building; he is not in any sense "buying the house". The proposed scheme would fortuitously give the latter, but not the former, the right to acquire the freehold with vacant possession on highly advantageous terms. (As the figures in the Appendix show, in the first example (Case IV) the proposal would enable a leaseholder who bought the tail-end of the lease, probably for a few hundred pounds, to buy out for
£195 a freeholder's interest worth £825 and so to gain an immediately
saleable capital asset of £1,500; in the second example £800 would buy
him a freeholder's interest worth £2,630 giving him a capital asset
worth £4,000. The only comparable case in the table annexed to the
Lord President's memorandum is No. 3 (i.e. the only example where
the lease will shortly expire) where a payment of £150 will buy a
£1,300 asset.) Many leaseholders who had bought short remainders for
very little money could be given large windfalls which could not be
justified by any social merit. Unless the leaseholder has a claim in
social equity (e.g. because of the price he paid for the house or of the
prolonged occupation by himself and his forbears) there can be no
justification for giving him this fortuitous gain or for depriving the
freeholder (who may have paid for the full present day value of the
reversion). In their application to late-comers the proposals are
indispensable. There must either be an exclusion of purchasers of
short terms, or the calculation of the enfranchisement price must take
account of the length of the term originally acquired by the leaseholder.

Minimum term of 21 years

3. One solution would be to revert to the proposal made in
December, in paragraph 2(3) of C(65) 104, that holders of terms of 21
years or less should not be entitled to any extension of their leases and
should be given the right to enfranchise only at the market value of the
freeholder's interest.

Price related to leaseholder's interest

4. Another solution, which has the attraction that it does not draw
a somewhat arbitrary line between those who benefit from the legislation
and those who do not, is the Minority proposal indicated in paragraph 5
of C(66) 29. It would take account of the leaseholder's merit in
calculating the price for enfranchisement and enable those leaseholders
who originally bought a long term, or who still have a lengthy unexpired
term, to enfranchise cheaply, while those who bought a short term and
are now near the end of that term, would pay something approaching the
full market value. This result can be achieved if the price for
enfranchisement is made the value which the freeholder's interest would
have at the date of enfranchisement, if it were subject to a lease which
still has as long a period to run as that originally acquired by the
leaseholder or his forbears. Examples of the operation of such a
formula are given in the Appendix. Broadly speaking, the price which
the leaseholder would have to pay for enfranchisement would be
equivalent (expressed in up-to-date money terms) to the additional
amount which he would have had to pay when he bought his lease if
instead of buying only a lease he had then bought the freehold. In my
view, that is exactly what in equity we ought to achieve.

Extension of the lease

5. The 50 year extension proposed in paragraph 2(2) of C(66) 29
will give the leaseholder in every case the full value of the building,
whether he has paid for it or not. The figures annexed to the
memorandum show that the value of the freeholder's interest is
drastically reduced. The objections raised earlier in this memorandum
to the uncovenanted benefits which the proposed enfranchisement rights
would confer on late-comers apply equally to this extension. Leaseholders who bought late in the term have no moral claim to the valuable proprietary interest which a 50 year extension gives them, and I can see no justification for giving them more than the right to remain in occupation on a "fair rent" which they already enjoy under the 1954 Landlord and Tenant Act. For holders of longer terms the terms of enfranchisement will be so generous, that I would doubt that many leaseholders would fail to take advantage of them and rely on an extension of the lease. However, to assist those who fail to enfranchise, I would not be averse to an extension for a moderate period, say 21 years.

Rights reserved to the freeholder

6. I am also unable to agree with the majority of the Ministerial Committee on the proposed rights reserved to the freeholder (paragraph 2(4) of C(65) 25). They would deny the freeholder the right to resist enfranchisement on the ground that he wished to redevelop the property. At present a freeholder who is intent on redeveloping a leasehold area can keep his property intact by refusing enfranchisement and redeveloping when the leases fall in. The proposals would enable any leaseholder in the area to enfranchise and thereby to frustrate any possibility of planned redevelopment by the freeholder. In effect the proposals would put an end to all future planned redevelopment of leasehold property by private landlords. That in my view is not consistent with the public interest or with our vision of a modernised Britain. I suggest that a freeholder who can show a settled intention to redevelop should be able to resist enfranchisement (or an extension of the lease) but that he should have to pay the leaseholder compensation equal to the leaseholder's interest as enhanced by this legislation.

Conclusion

7. I therefore ask my colleagues not to agree to the proposals put forward by the majority of the Ministerial Committee unless they are qualified in the way I have suggested.

G.

House of Lords, S.W.1,

8th February, 1966
APPENDIX

FIRST EXAMPLE

A small house - original lease 99 years - rateable value £40 - ground rent £1 - current value ground rent £10 - "fair rent" £50.

Vacant possession value £1,500

Case I
Present occupier bought with 60 years unexpired. At date of enfranchisement unexpired term is 30 years.

Case II
Present occupier bought with 40 years unexpired. At date of enfranchisement unexpired term is 10 years.

Case III
Present occupier bought with 20 years unexpired. At date of enfranchisement unexpired term is 5 years.

Case IV
Present occupier bought with 10 years unexpired. At date of enfranchisement unexpired term is 1 day.

<table>
<thead>
<tr>
<th>Case</th>
<th>Present Market Value of Freeholder's Interest</th>
<th>Price for Enfranchisement if lease extended by 50 years</th>
<th>Price for Enfranchisement if lease extended by 21 years</th>
<th>Price for Enfranchisement on basis proposed in this paper</th>
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</thead>
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<tr>
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<td>135**</td>
<td>135**</td>
<td>135**</td>
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<tr>
<td>Case II</td>
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<td>125</td>
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<td>110</td>
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<td></td>
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<td>400**</td>
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<td>185</td>
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<td>825**</td>
<td>825**</td>
</tr>
</tbody>
</table>

* Where third party buys freeholder's interest.

** Market price where leaseholder purchases freeholder's interest.

(1)
SECOND EXAMPLE

A suburban house with garden - original lease 99 years - rateable value £150 - ground rent £7 - current value ground rent £10 - "fair rent" £185.

Vacant possession value
£4,000

Case I
Present occupier bought 60 years unexpired. At date of enfranchisement unexpired term is 30 years.

Case II
Present occupier bought with 40 years unexpired. At date of enfranchisement unexpired term is 10 years.

Case III
Present occupier bought with 20 years unexpired. At date of enfranchisement unexpired term is 5 years.

Case IV
Present occupier bought with 10 years unexpired. At date of enfranchisement unexpired term is 1 day.

<table>
<thead>
<tr>
<th>Present Market Value of Freeholder's Interest</th>
<th>Price for Enfranchisement if lease extended by 50 years</th>
<th>Price for Enfranchisement if lease extended by 21 years</th>
<th>Price for Enfranchisement on basis proposed in this paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case I</td>
<td>340*</td>
<td>250</td>
<td>250</td>
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<tr>
<td>Case II</td>
<td>925*</td>
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</tr>
<tr>
<td>Case IV</td>
<td>2020*</td>
<td>800</td>
<td>800</td>
</tr>
</tbody>
</table>

* Where third party buys freeholder's interest
** Market price where leaseholder purchases freeholder's interest
Cabinet Office, S.W.1.

9th February, 1966
Threatened Rail Strike

The Ministerial Committee on Emergencies met this afternoon under my Chairmanship to review the preparations being made to maintain essential supplies and services should the threatened rail strike materialise. We approved a number of detailed arrangements, together with a draft of the Emergency Regulations, which are for practical purposes identical with those used in 1960.

There are, however, two major issues which I should put to you and on which you may wish to take the Cabinet's view when you raise the issue at tomorrow's meeting. These are:

1. The date on which the Emergency Regulations should be made and laid before Parliament. These can be made by Order-in-Council and laid either on Saturday, 12th February (up to 1 p.m. but not later) or Monday, 14th February. If the latter, they will not be in force until the following day. This would not have any great practical disadvantages; the Ministry of Transport's plans would not be affected and though the Post Office would have to act, as on previous occasions, from the start as though the Regulations were in force, this is not likely to be challenged and is acceptable to the Postmaster General. My Committee therefore recommend that the Regulations should be laid before Parliament on Monday, 14th February.

2. A number of announcements will, however, have to be issued before then, to give detailed guidance to the public, if they are in any way to be effective by the Monday. In particular, firm guidance must be given to employers about the arrangements for staff coming to work, early on Friday if they are to make their plans before dispersing for the weekend. The announcements about emergency traffic arrangements for London and about motor insurance for travellers giving lifts should be made at the same time. The Post Office announcement of restrictions on the mail service should be made on the Saturday. Other detailed departmental announcements, such as those by the Ministry of Defence to give travelling instructions to members of the Armed Forces and their families who may be in transit e.g. on leave from Germany, are also necessary. Furthermore, the confidential discussions which are now taking place with local authorities and the Air Corporations, for example, are bound to become known very quickly. My Committee, therefore, thought it important that there should be an early statement of the Government's plans as a whole which should include or cover all the necessary departmental statements and that this announcement should be made as soon as possible on Friday morning and indeed, preferably by Thursday evening. The detailed arrangements could be co-ordinated by the Press Working Party which has been established for this purpose, but the timing and content of such a major statement are matters for a Ministerial decision.

I suggest a draft be prepared by a small group of the senior officials concerned, in the light of the Cabinet's conclusions, and submitted to Ministers and then to yourself, if approved, on Thursday afternoon.

R. J.

5th February, 1966
CABINET

BROADCASTING: DRAFT WHITE PAPER

Memorandum by the Postmaster General

I attach for the Cabinet's consideration a draft White Paper on Broadcasting which has been approved by the Ministerial Committee on Broadcasting. If my colleagues approve the proposals contained in this draft, the Ministerial Committee agreed that it would be wise to consult the Chairmen of the BBC and ITA about them. If it were thought necessary, I could then report back to Cabinet before the printing is set in hand.

A.W.B.

GPO Headquarters, E.C.1

10th February, 1966
1. On taking office, the Government succeeded to a number of unresolved problems of broadcasting policy. Chief among them was the question of EEC finance. On colour television, though the previous administration had expressed their intention to authorize a start on a modest scale, a final decision on the system of transmission had been reserved in the hope that a broad measure of agreement on the adoption of a common system for Europe would be achieved at a meeting of the international organisation concerned in Vienna in the Spring of 1965. On local sound broadcasting, the previous administration had undertaken to review their earlier conclusion that this development should not command a high priority.

2. The previous administration had also stated their intention of authorising a second programme of independent television during 1965 unless financial or other obstacles were insurmountable at that stage. The Government are not yet in a position to announce a final decision on this question.

3. The Government believe that broadcast television has a major part to play in the development of a University of the Air and a separate white paper will be published on this subject.

Principles governing the formulation of policy

4. Given the problems awaiting them, and the possibilities for the future, the Government have approached their task in the light of the six principles laid down during the debate on May 13th, 1965.

5. The principles were:

   (i) A profound belief in the growing importance of radio and television to the community and the world.

   (ii) A wish to see television and radio expand, as rapidly as national resources permit, to meet important national needs and to develop still further their potential for education, information and entertainment.

   (iii) A recognition that technological changes have opened up new possibilities for international programme exchanges and colour television.

   (iv) A determination to uphold and entrench the principle of public service in all future television and radio development, this principle to be reflected in its purposes, in the allocation of channels, in the maintenance of programme standards, in public accountability without political interference, and in the integrity and independence of programme provision.

   (v) A desire to permit the greatest possible freedom and scope for creative talent to express itself through radio and television, and hence, the encouragement of a diversity of outlets.

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(vi) A readiness to consider various methods by which broadcasting can be financed, including (alone or in combination) broadcast licences, exchequer grants, local government grants and revenue from advertising under proper supervision.

6. Given these principles, which the Government believe command general acceptance, the proposals contained in this White Paper must be taken and seen together as a whole rather than as separate solutions to individual problems. The most important consideration throughout has been the listeners and viewers for whom the services are provided. The forms of organisation and finance must be subordinated to them and not vice-versa. With this in mind the Government have thought it right to entertain and consider all the various ideas and proposals put to them on the development, and organisation, of broadcasting services.

THE FINANCES OF THE BBC

7. The BBC were committed by decisions taken by the previous administration, following the report of the Pilkington Committee, to undertake major expansion of their services, namely:

(a) BBC-2
(b) self-contained television services for Scotland and Wales
(c) more hours for sound broadcasting
(d) more adult education programmes
and (e) a start on colour television.

Except for colour television, these decisions, which were welcomed on all sides when they were announced, have been implemented.

8. The understanding on which the BBC proceeded to carry out a programme of expansion and development was that they would be afforded sufficient income to finance adequate services.

9. In October, 1964, the BBC informed the Government that the Corporation's deficit in the Home Services would amount to some £15m. by April, 1969, if nothing were done to increase their income and no other compensatory steps were taken. Now that most households have television and radio the BBC can no longer look to regular increases in the total number of licences as a substantial source of additional income. Accordingly, they asked that the combined sound and television licence fee should be raised from £4 to £6, and the sound only licence fee from £1 to £1 5s. Od., the increases to take effect on 1st April, 1965. It was, of course, the Government's duty first to satisfy themselves that the increase sought by the Corporation was justified. As however, the BBC's deficit was rapidly increasing, immediate action was necessary. So, pending the outcome of their comprehensive survey of broadcasting policy—including a rigorous enquiry into the BBC's finances—the Government authorised an increase in the combined licence fee from £4 to £5; and in the sound only fee from £1 to £1 5s. Od. Both increases took effect on 1st August, 1965.
The remaining deficit

10. The Government have completed their review of the BBC's finances. In the course of the review, they have satisfied themselves that the Corporation operate with efficiency. The Government review confirmed also that the estimated growth in the BBC's expenditure derived very largely from the additional commitments they were asked to undertake. There is thus no scope for major savings except through drastic cuts in the services provided and in course of provision. Cuts of this kind would restrict the range and lower the quality of the services of broadcasting provided by the BBC for the viewing and listening public. The Government reject this course.

11. If the Corporation's commitments are to remain unchanged, and if no further steps are taken to provide additional income, the overall financial prospect with which they would be faced is that their cumulative deficit on the Home Services which stood at some £5m. on 31st March, 1965 can be expected to rise to nearly £17m. by the end of 1966-67 and to more than £30m. by the end of 1967-68. And if the extended hours of television broadcasting which the Government intend to authorise were to be fully utilised the figures would be even higher.

Borrowing

12. Under the BBC's Charter, the Corporation's borrowing powers are limited to:-

- £10m. for temporary banking accommodation; and
- £20m. for capital purposes.

For the BBC, borrowing does not generate additional revenue, but only increases interest charges. It does not, therefore, offer a permanent solution to the BBC's financial problem. The Government reject the view that the answer to the Corporation's difficulties is to increase their borrowing powers.

Licence evasion

13. It has been reliably estimated that of the gross revenue amounting to £80m. payable in a full year, some £9m. is lost through evasion most of this loss arising from the unlicensed use of television sets. This cannot be allowed to continue. Honest viewers and listeners are, in effect, paying for the dishonesty of the evaders.

14. Steps have already been taken by the Postmaster General to tighten up his Department's existing counter-evasion measures, in co-operation with the BBC. Work is also in progress on the possibility of transferring licence records on to computers; this would provide fuller and more up-to-date information on which to take action and would reduce the costs of administering the licence system. But there is a limit to what can be done without disproportionate expenditure and these measures by themselves will not suffice.

15. The Government is therefore consulting the retailers and rental companies to see what contribution they can make to the task of combating evasion. The possibilities the Government have in mind are that the sale of television sets would in future be notified to the Post Office by retailers and that rental companies would undertake to ensure that their sets were licensed. Any necessary legislation would be introduced as soon as practicable.
16. In the nature of the case, no exact estimate is possible of the financial effect of these various measures. The new measures proposed in the previous paragraph are, by their nature, relatively slow-acting since they only take effect when people renew their sets. But the net yield from licence fees might be raised by some £2m. in 1967-68, rising to £7m. in 1971-72.

Methods of increasing the BBC's income

17. Even if the best expectations of the counter-evasion measures are in fact realised, they will not produce anything like enough extra money to meet the BBC's needs. Basically, there are only three ways of increasing the BBC's income: an increase in the licence fee; direct Exchequer subvention; and revenue from the sale of advertising time in the Corporation's programmes.

The licence-fee system

18. The Government are convinced that the licence-fee system must remain the basic means of financing the BBC. It is a well-established constitutional device, affording the BBC a guarantee of assured income; and freedom from detailed control and outside intervention. However, if the BBC were to continue to rely entirely on licence revenue, the combined fee would have to rise by £1 before the end of this year and a further increase would be needed within a few years after that. The amount and timing of the increase would depend largely on the trend of wages and prices in the interim. But a further £1 might be needed by the end of 1968 or even earlier if the BBC were to take advantage of extended hours of broadcasting which it is proposed to authorise. The Government do not think it right to call upon the public to accept a further increase in the licence fees at this moment, so shortly after the increase introduced last August.

Direct Exchequer Subvention

19. If the Corporation's domestic services were to be financed, even in part, from general taxation unrelated to the licence fee, they would be in a position very similar to that of a Government department and would be liable to much the same kind of detailed control. Moreover it would involve a substantial increase in the level of taxation. The Government reject this method as incompatible with the independence of the Corporation.

Advertising Revenue

20. Clause 13 of the BBC's Licence and Agreement* forbids the Corporation to broadcast paid advertisements unless they first seek to obtain the Postmaster General's written consent. Thus, the initiative in this matter has been placed with the BBC.

21. In the past the broadcasting of advertisements by the BBC has been opposed on the argument that a BBC largely financed from advertising could not at the same time satisfy the requirements of the listening public and of the advertisers. It has also been represented that advertising by the BBC would fundamentally alter the nature of the competition between the Corporation and independent television; and that, though a limited amount of advertising might have no significant effect on the services, once it has been allowed the natural disposition would be to rely increasingly on it whenever the Corporation needed more money.

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*Cmd. 2236, approved by affirmative resolution of the House of Commons, January 1964.
22. The Government are not however persuaded that some strictly controlled advertising confined to one sound service that is already seeking a large audience at all times would necessarily prove inimical to the Corporation's services. Accordingly, they would be willing to authorise the sale of advertising time, in the Light Programme only, if the Corporation seek permission to do so. In announcing their willingness to proceed in this way, the Government note that advertising confined to the Light Programme would be limited in scale and not out of place in a service of this kind. Most important it would not alter the nature of the competition between the BBC and Independent Television.

23. Advertising on the Light Programme might, it is estimated, be expected to produce net additional annual revenue rising to some £7m. a year.

BBC finance: summary

24. The combined effect of advertising receipts on this scale and the further measures proposed by the Government to combat licence evasion could be expected to reduce the Corporation's estimated deficit (paragraph 11) to, say, £14m. at the end of 1966-67 and £22m. at the end of 1967-68.

25. No further increase in the licence fee will be authorised until these and the other measures proposed below have been allowed time to take effect. Meanwhile the BBC will be expected to exercise the strictest economy.

COLOUR TELEVISION

Choice of system

26. As the Postmaster General has already announced, his Television Advisory Committee has recommended that colour television be introduce on the 625-line standard only, using the PAL system of transmission.

27. The Government accept this recommendation. In doing so, they record as a main consideration the expectation that the PAL system will be adopted in most Western European countries. The possibility cannot altogether be discounted that, at the meeting of the International Radio Consultative Committee due to take place in Oslo in June of this year, another system might - against present expectations - find general acceptance for common use throughout Europe. In that event, the Government would naturally undertake to take this into account, and if necessary reconsider their decision.

Line standard

28. The effect of the decision to confine colour television to the 625-line standard is that only BBC 2 will be able to transmit in colour initially. However, the Government re-affirm the decision of the previous administration that all programmes in VHF should be on the 625-line standard and this will open the possibility of colour in all future television programmes.
Timing of a start

29. After a slow start, colour television is now developing rapidly in North America, and some European countries have already announced their intention to open a colour service in late 1967. This consideration argues in favour of an early start in this country. On the other hand the Government have of course had to weigh the demands on resources to which a colour service would give rise over the next few years. The BBC’s initial plans envisage that there would be four hours of colour a week initially rising to about ten hours a week by the end of 1968. The additional cost to them of broadcasting colour programmes on this scale would only amount to some £1m. to £2m. a year; consumer expenditure on receivers would be greater - it could be as much as £100m. over the period up to 1970. However some of this expenditure would be balanced by a switch by viewers from consumer expenditure on other goods or services. It would be quite wrong to allow this country to fall behind in this new technical field and to lose the export opportunities that the early introduction of a colour service would offer. The Government have therefore decided that a regular colour service should be started in the autumn of 1967.

A special licence fee

30. It would not be fair to ask viewers generally - many of whom will not be able to receive colour programmes for some time to come - to bear the whole cost of the colour broadcasts which will only be seen in households able to afford the high cost of colour sets. The Government have decided therefore to introduce a supplementary licence fee of £2 payable by households equipped to receive colour transmissions. The date for the introduction of the increased licence fee will be decided later. This decision will also serve to underline the Government’s determination that the BBC shall continue to be financed principally by licence revenue.

LOCAL SOUND BROADCASTING

The technical considerations

31. There is no frequency space for a general service of local sound broadcasting in the highly congested medium and long wavebands covered by the ordinary domestic receivers and transistor portable sets. There is frequency space available, however, in the very high frequency (VHF) Band II; and, used intensively, under a co-ordinated national plan, this could provide for some 350 local stations. Not all of these 350 locations would however coincide with considerable centres of population but in practical terms some 200 towns and cities could be served. A typical station would have a range of some five miles. More than one station would be needed to cover the largest centres of population.

During the hours of daylight, when there is less congestion in the medium wave band, some local sound transmissions on VHF might be duplicated on medium wavelengths. Some low power stations might be provided in such a way as not to interfere with existing stations transmitting the BBC’s present sound services (and those of other countries). The advantage would be that broadcasts of the local stations could then be received by people without VHF receivers.

The purpose of a service of local broadcasting

32. Though the country is already well served by the national and regional sound services provided by the BBC, the Government believe that local sound radio could bring a new and revitalising element into
broadcasting and make a valuable contribution to community life. Properly used, it would also have a useful part to play in education.

33. The Pilkington Committee concluded that worthwhile local sound broadcasting stations would transmit "for a sufficient part of the broadcasting day, material of particular interest to the locality served by that station rather than to other localities." In the White Paper of July 1962 the previous Administration said they agreed "that the justification for local sound broadcasting would be the provision of a service genuinely "local" in character." The Government share this view.

34. It would be a misconception of the role of local sound broadcasting to expect of it a service limited to playing continuous "pop" music throughout the day. In the first place, this would be to ignore their main purpose of providing an essentially local service. Insofar as there is a demand for a popular programme, mainly consisting of music, available throughout the day on a national channel, this can best be met by the BBC Light programme. Moreover, local stations would have to pay for copyright and to observe the agreed amounts of "needle-time" negotiated with the phonographic industry with the support of the Musicians' Union. This is not to say that there is no place for "pop" music in local broadcasting.

Organisation and finance

35. In considering how the service should be constituted, organised and financed, the Government have adopted a single practical criterion: how best to serve the essential purposes of local broadcasting. It is against this background that the Government have considered the various claims to provide such a service.

BBC stations

36. The BBC have expressed a willingness to mount a pilot scheme, within the revenue from the present 25s. sound licence fee, in some nine centres. The Corporation have already undertaken a series of closed-circuit experiments which have shown the expertise and professional enthusiasm which the BBC would bring to the provision of a service. But the BBC is a unitary structure, organised primarily to provide services on the national scale. Though the Corporation have expressed their readiness to afford managers of local stations a great degree of freedom from day-to-day control from Broadcasting House, nevertheless the Government is not persuaded that a national organisation which already has a monopoly in the provision of sound broadcasting is best fitted to provide new local services. In addition it would not, in the Government's view, be right to ask people living in areas which could never receive BBC local stations to pay for them through licence fees. Nor, in the present state of BBC finances, would it be right to impose fresh and expensive commitments on them. The Government do not therefore propose to take up the BBC's offer to conduct a pilot scheme.

Commercial stations

37. The expectation is that, for many years to come, there would be only one station serving any particular locality. Such a station would have a monopoly for the sale of local advertising time. Moreover, it would be the perfectly proper objective and duty of commercial companies to secure a good return on the money invested in them. The Government believe that this would prove incompatible with the need to provide a service which would find expression for the particular interests and tastes of the many widely differing communities. There is another important
consideration to be borne in mind. If a fully developed service of local commercial radio stations were to be established the advertising revenue diverted from the local newspapers might endanger the survival of many of them which would detract from community life. Moreover, if to avert that consequence local newspapers were allowed to own the local stations themselves a local monopoly of local news and comment would be established with even greater risks to local democracy. Accordingly, the Government reject the proposal that a service should be provided by commercial companies.

Community stations

38. The Government conclude that another solution is to be preferred namely, that local community stations might be established and operated on a public service footing under the control of local broadcasting authorities composed of people drawn from the local community and sufficiently representative of it. They have therefore decided to authorise the experimental establishment of stations on this basis. The Postmaster General will be prepared to consider applications for the authorisation of local sound broadcasting stations from bodies of local people who will constitute themselves to sponsor an application and can satisfy him as to their suitability and competence. The general conditions under which the Postmaster General will be prepared to authorise such stations will be published shortly. The Government would particularly welcome applications from the headquarter towns of the new economic planning regions.

Financing community stations

39. The local broadcasting authorities would be charged with the whole responsibility for finding the necessary finance, both capital and revenue. A worthwhile service must be able to count upon a regular and sufficient income. Though the Government would hope that a sense of pride of community would lead local interests to contribute financial and other help to their station, they recognise that this may not suffice. The broadcasting authorities would therefore be empowered to sell advertising time, on condition that the amount of advertising could be no more than was needed to finance the service. Each authority would be required to transmit a proper proportion of educational material, in some cases no doubt provided on behalf of local education authorities, colleges and universities, who would in that case provide or finance the programmes. Apart from these cases, these stations would not be directly financed by the rates, and could develop in such a way as to become themselves patrons of local cultural life. They would not be subject to local authority control in matters of programme content; in that respect following the practice of independence enjoyed by the BBC and the ITA.

Effect on the press

40. Many local newspapers which saw the prospect of commercial local sound broadcasting as posing a threat to their continued existence can take some reassurance from these proposals. It is to be a condition of the establishment of a local station that it must not be profit-making; and the Government are satisfied that, with this safeguard, such stations could play a useful part in enlivening community life without unfair competition. In addition to this it is certainly visualised that leaders of the local press would be appropriate people to serve on local broadcasting authorities. Moreover, local stations would almost certainly require and pay for services of news and information supplied by local newspapers.
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Term of the initial licences

41. In the Government's view, four years should be enough for the initial period of the licence and agreement concluded with each authority. Towards the end of the period the working of the experiments would be reviewed and the constitution and organisation of the service on a longer-term basis decided in the light of experience. A decision of this importance, involving as it does the breaking of the BBC sound monopoly, and the beginnings of an entirely new type of broadcasting organisation based on public service principles with a mixed revenue, ought to be reviewed at such a stage in its life.

A NATIONAL BROADCASTING COMMISSION

42. Broadcasting is developing so fast that Committees of Enquiry at twelve-year intervals do not come sufficiently frequently to advise on all the problems that arise in this field. For this reason the Government have decided to establish a National Broadcasting Commission with the following terms of reference:

"To advise the Postmaster General on such questions relating to the domestic broadcasting services of the United Kingdom, the Channel Islands and the Isle of Man as he may refer to it".

The problems of the BBC's external services are different in kind from those of the domestic services and it is not contemplated that these would be referred to the Commission.

43. The chairman and members will be selected on the basis of the individual contributions they could make and not as representatives of the public in general or any sectional interests. They will be appointed by the Postmaster General who proposes to invite, in addition the Vice Chairman of the BBC and Deputy Chairman of the ITA to join the Commission.

44. The main functions of the Commission would be to advise on major questions of broadcasting policy. Though it would be open to the Postmaster General to refer to the Commission broad and general questions relating to programme standards he would not refer to it nor would it entertain, individual complaints about particular programmes. The Commission would report to the Postmaster General who would present its report to Parliament for consideration and who would take account of it in his major decisions. The Commission's advice to the Postmaster General would not itself be made binding on the broadcasting authorities, whose discretion in the discharge of their responsibilities must remain unqualified. The Commission would however provide a valuable and independent source of advice entirely free of Government influence upon issues of policy as and when they arise. The broadcasting authorities including the new local broadcasting authorities would certainly wish to take serious account of this expression of opinion along with that expressed in Parliament, the press and direct representations from members of the public.

45. In summary, the Commission's purpose would be to provide the Government with advice on the issues of policy referred to it and to reinforce the methods by which public opinion is brought to bear on the broadcasting authorities; but it would neither displace the present agencies through which that opinion expresses itself, nor derogate from the responsibility of the authorities for the programmes they broadcast.
HOURS OF BROADCASTING

46. The Government have considered the question of extended hours of television broadcasting by the BBC and the ITA. It is argued against any extension for the time being that it would impose a greater burden on the production resources of television, considered as a whole, than they can meet (without risk of a loss of programme quality) at a time when BBC 2 is developing and when the University of the Air is to be established. Moreover, the BBC's financial difficulties would be sharpened if they were to match on BBC 1 a large increase in hours on independent television. On the other hand apart from the general argument against restriction, there is the case of the shift workers and others who are at work during the main viewing hours. And there are also the housewives, invalids and elderly people and others who are at home during the day. It is wrong that they should continue to be denied the choice of looking at television then.

47. The Government's conclusion is that while the Postmaster General's powers of control over broadcasting hours must remain, the time has come for a considerable increase in the permitted hours.

More educational broadcasting

48. The Government consider, however, that within the extended hours a greater place should be found for educational programmes and they are therefore discussing with the broadcasting authorities the arrangements to provide for this and, in the case of the ITA, to provide also for experiments within the terms of the Television Act 1964, which allows the ITA to seek out educational programmes from sources other than the programme companies. In this way, the ITA might develop still further its existing role as "publisher" of programmes, in this case without the intervention of advertising matter. These programmes would be financed by the Authority itself.

PAY TELEVISION

49. Under the previous administration licences were issued to three companies authorising them to mount an experimental service of pay television. All but one of the companies decided not to proceed with the experiments and the remaining company (Pay Television Ltd.) began to provide a service in January, 1966. The Government will keep the experiment under review.

CONCLUSION

50. The BBC's Charter and the Television Act expire in 1976. The Government believe that the developments outlined in this paper should set the pattern for the growth and expansion of broadcasting as a public service for the remainder of the decade. Insofar as further decisions will be required in the interim, they will have advice of the National Broadcasting Commission.
11th February, 1966

CABINET

DEFENCE REVIEW:
THE STATEMENT ON THE DEFENCE ESTIMATES 1966, PART I

Memorandum by the Secretary of State for Defence

This year the Statement on the Defence Estimates has been printed in two parts, to be published at the same time. Part II deals with the Defence Estimates for 1966/67. Part I, of which the draft is attached to this memorandum, is a report on the progress of the Defence Review. In order to ensure its publication on 23rd February, the proof needs to be in the hands of the printers by 16th February. Because of this tight timetable, the same paper is being circulated simultaneously to the Defence and Oversea Policy Committee and the Cabinet. Amendments suggested by my colleagues on the Defence and Oversea Policy Committee will be circulated separately.

2. I invite my colleagues to approve the contents and form of the draft of Part I of the Statement on the Defence Estimates 1966.

D.H.

Ministry of Defence, S.W.1.

11th February, 1966
STATEMENT ON THE DEFENCE ESTIMATES 1966

PART I - THE DEFENCE REVIEW

This year the Statement on the Defence Estimates is printed in two parts. Part I is a report on the defence review and looks into the 1970s. Part II is about the defence estimates for the coming year, 1966/7; its scope is confined to the problems of the present or the immediate future.

I. THE PURPOSE OF THE REVIEW

On taking office in October 1964, the Government decided to carry out a far reaching examination of the nation's defence needs in the next decade, with two objectives: to relax the strain imposed on the British economy by the defence programme it had inherited, and to shape a new defence posture for the 1970s.

2. Military strength is of little value if it is achieved at the expense of economic health. The defence plans of the previous Government would have involved an excessive burden both in resources and in foreign exchange. As we emphasised in the National Plan (Command 2754), to continue spending over 7% of the gross national product on defence, would be seriously damaging to Britain's economy, at a time when we need a rapid increase in production so that we can export more and import less; when industry must be re-equipped and modernised; and when we are running into a shortage of manpower. We plan, therefore, to bring our defence expenditure down to about 6% of the gross national product by 1969/70, thereby improving our ability to compete successfully with other exporting countries.
Financial Target

3. As a guide for recasting the defence programme, the Government set a financial target of £2,000m. at 1964 prices, to be reached in 1969/70. In other words, we intend that our programme three years from now should not cost more in real terms than that of two years ago. This means a reduction of £400m., or 16% on the plans of the previous Government. Some progress towards this goal was made by the changes in the equipment programme which we announced more than a year ago. On 5th August, 1965, we reported that we had managed to get more than half way to our target - from £2,400m. to about £2,180m. - without reducing our ability to carry out the present scale of military tasks.

4. But these changes, though achieving a major cut in expenditure without any loss in military efficiency, and thereby relieving the burden in resources on the nation's economy, did nothing to reduce the excessive cost of defence in foreign exchange. Nor did they contribute to solving the second major problem which led the Government to undertake the defence review - the over-stretch of our military manpower.

Manpower Stretch

5. Although our political commitments have become fewer in recent years, larger military tasks have been imposed by those that remain. The military power of potential enemies has been increased over the same period, mainly by sophisticated equipment from abroad.

/As a result,
As a result, the bulk of our fighting forces outside Europe have been permanently tied down in operational tasks all over the world. On several occasions no units of the strategic reserve have been immediately available in Britain. We have thus been compelled to make use of our right to withdraw forces committed under the Brussels Treaty to serve in Germany, in order to meet temporary needs overseas.

6. The Services have responded to a succession of unforeseen contingencies with cheerful efficiency. But the cost has been high. Men in all three Services have been required to work long hours and to serve for long periods abroad often without their families.

7. The following figures give some idea of the burdens imposed.

**Navy**

Average employment of destroyers/frigates:

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Mileage</th>
<th>Days of 24 Hours</th>
<th>Ratio Sea: Harbour</th>
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</thead>
<tbody>
<tr>
<td>1956-7</td>
<td>27,600</td>
<td>81</td>
<td>1 : 4</td>
</tr>
<tr>
<td>1963-4</td>
<td>33,450</td>
<td>142</td>
<td>1 : 1.5</td>
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**Army**

Numbers of units and men sent overseas on emergency or unaccompanied tours

<table>
<thead>
<tr>
<th>Year</th>
<th>Major Units</th>
<th>Numbers in Units</th>
<th>Individual Postings</th>
<th>Total</th>
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<td>4000</td>
<td>600</td>
<td>4600</td>
</tr>
<tr>
<td>1964</td>
<td>16</td>
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</tr>
<tr>
<td>1965</td>
<td>17</td>
<td>8500</td>
<td>1400</td>
<td>9900</td>
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</table>

**Royal Air Force**

Increase in Flying hours per 100 persons

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
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6. Against this background both recruiting and re-engagement have fallen short of the targets set; this in turn has increased the strain on our already over-stretched Services. Such over-stretch has the most damaging consequences in our defence policy as a whole. Besides restricting our military ability to meet the unforeseen, it limits our political freedom to adjust our defence programme from time to time as circumstances change. Even a relatively small contraction in our present defence effort will mean that we must relinquish some of our present commitments overseas. In planning to close the gap of £180m., which still remained in August, we set out not only to decide which political commitments we must give up, but also to limit the scale of the military tasks which may be imposed by the commitments which remain.
II BRITAIN'S MILITARY ROLE

9. We are compelled to plan the main features of our defence policy a decade ahead; it takes at least ten years to develop and introduce a major new weapon system, and at least five years to produce base facilities abroad. And yet there can never be certainty either about political or technological developments in the intervening period. Defence policy must therefore be based on what can never be more than guesses, formed on an imperfect knowledge of the facts. The fate of the 1957 Defence White Paper illustrates the dangers of being over-dogmatic about weapons and political developments.

10. At the same time, it is essential that the Government should take some firm decisions based on the best predictions it can make. Otherwise it will waste its resources by ill-judged attempts to prepare for too wide a range of contingencies, and will fail to prepare properly for any. Above all, the Government can, and must, decide in broad terms what sort of role Britain should play in the world in ten years' time, and what part its military forces should play in supporting that role. In other words, it has to decide what sort of military capability is likely to make political sense.

The United Nations and Disarmament

11. Recent history underlines the importance to Britain, as to all other countries, of strengthening the United Nations as the main instrument for keeping peace. Britain is already making a major contribution /to
to the United Nations' forces in Cyprus, and has offered further units for logistic support of a United Nations force, whenever this is required in future. Political disagreements, not only among the great Powers, but also among the small, have so far set limits to the United Nations' authority for peace-keeping, and the failure of many countries to make the necessary financial contribution has limited the United Nations' capability in this field. But it remains a major aim of British policy to enable the United Nations to assume increased powers in the years to come.

12. Most major Powers are becoming more conscious that their own security can only be safeguarded by bringing the international arms race to a halt. The trend of military technology suggests that the survival of humanity itself will soon depend on making progress towards general and complete disarmament. The most urgent and immediate problem is to stop the further spread of nuclear weapons. We believe that the British Government should be prepared to give up its own nuclear forces at any time when it is satisfied this will make possible the achievement of this goal. Meanwhile we aim to internationalise our nuclear strategic forces in order to strengthen the alliance.

13. The conventional arms race among the smaller Powers continues unchecked, posing grave dangers for their economic development and political stability. Here, too, the only certain solution would be an international agreement to control both the production and supply of armaments. This, again, remains a major aim of British policy.
Meanwhile we cannot safely base our defence policy for the 1970s on the assumption that our objectives will have been attained in full. We must be ready to continue to live in a world in which the United Nations has not yet assumed effective responsibility for keeping peace, and the arms race has not yet been brought to a halt.

**NATO and the Defence of Europe**

In such a world

15. The first purpose of our armed forces will be, as now, to ensure the survival of the British people. The security of these islands still depends above all on preventing war in Europe. For this reason, we regard the continuation of the North Atlantic alliance as the key to our survival.

16. NATO's experience over the last decade suggests that there is small danger of deliberate war in Europe at any level so long as the potential aggressor believes that this is likely to lead to a nuclear response. The credibility of this response hinges on the solidarity between the nuclear and non-nuclear members of NATO. This in turn depends largely on satisfying the non-nuclear members that, in a crisis, nuclear weapons will - or will not - be used in accordance with the wishes of the alliance as a whole.

17. Broad guidelines governing the possible recourse by NATO to nuclear weapons in self-defence were agreed at the Athens meeting of the NATO Council in 1962; increased participation by officers of member countries in nuclear planning and control was approved at the Ottawa meeting in 1963. Though we see no sign that...
the credibility of the nuclear response has fallen below the level required to deter aggression, the way in which the decision to use nuclear weapons would be taken in a crisis and the strategic doctrine which should determine their employment requires further study. An important function of the Special Committee of Defence Ministers, which met for the first time in November 1965, is to reduce any uncertainty to the maximum.

18. When general agreement has been reached on the principles and procedure by which the alliance should control the use of its nuclear weapons, it will be easier to reach an understanding on whether and, if so, how some of these weapons should be organised in a collective force. We believe that our proposals for an Atlantic Nuclear Force remain the best basis for discussion, since they would give firm guarantees against the further proliferation of nuclear weapons within the alliance.

19. Until progress is made towards disarmament, the only alternative to our present dependence on nuclear weapons would be a massive build-up of NATO's conventional forces in Western Europe. Even if Britain were prepared to face the heavy economic burdens imposed by this alternative, NATO as a whole is not willing to do so. A decision by NATO to increase its conventional forces in this way would in any case stimulate an arms race in Europe, since the Warsaw powers would probably follow suit. It would provide no protection if the aggressor himself decided to use nuclear weapons first.
20. On the other hand, once nuclear weapons were employed in Europe, on however limited a scale, it is almost certain that unless the aggressor quickly decided to stop fighting, the conflict would escalate rapidly to a general nuclear exchange, in which the whole of America's nuclear forces would be engaged. Organised land warfare would then soon become impossible. We believe, therefore, that the alliance should abandon those military preparations which rest on the assumption that a general war in Europe might last for several months.

21. At the same time, NATO must maintain enough conventional forces to suppress small-scale conflicts in the European theatre without automatic resort to nuclear weapons, when the origin of the conflict may be uncertain and the intentions of the enemy obscure. The number of ground formations already available for this purpose is probably sufficient, if they are adequately manned, trained and equipped. But more air support is needed for such conventional operations. The alliance could provide this without overall additional expense, provided it is ready to reduce the number of long-range nuclear strike aircraft it at present maintains to add to the American strategic forces in general war.

22. In all these circumstances, we think it right to maintain our ground forces in Germany at their existing level until satisfactory arms control arrangements have been agreed in Europe. It remains essential, however, that some means is found for meeting the foreign exchange cost of maintaining these forces in Germany. We shall strengthen our air support for conventional
ground forces in Germany at the cost of some reduction in our nuclear strike aircraft based there. We shall retain roughly our present capability for nuclear strike from British bases. We think that we can make some reduction in the level of our naval forces at present declared to NATO. We shall be consulting our allies about these changes.
Outside Europe

23. Outside Europe a direct threat to our survival at first sight seems less likely. We have a number of obligations, some arising formally from treaties, which we cannot relinquish unilaterally at short notice; some of these obligations will still exist in the 1970s. Although we have important economic interests in the Middle East, Asia and elsewhere, military force is not the most suitable means of protecting them, and they would not alone justify heavy British defence expenditure. But in addition to her specific obligations, Britain shares with other countries a general interest in seeing peace maintained, so far as possible, throughout the world. It is this interest above all which justifies our military presence outside Europe. Today, more than ever, peace is indivisible.

24. Much of Africa, the Middle East, and Asia, is going through a period of revolutionary change, which is liable sometimes to spill across international frontiers. In recent years the threat to peace has been far greater outside Europe than within it. When such instability leads to open war, it may imperil not only economic interests in the area, but even world peace. Great powers may be tempted to intervene and to collide with one another as they intervene. On more than one occasion, in the recent past, we have seen how local conflict in a far away country has threatened to embroil the major powers in a direct confrontation, directly endangering world peace.

25. Britain's forces outside Europe can help to reduce this danger. Recent experience in Africa has shown that our ability to give rapid help to friendly governments, with even small British forces, can prevent large scale catastrophes. In some parts of the world the visible presence
presence of British forces by itself is a deterrent to local conflict. No country with a sense of international responsibility would renounce these capabilities without good reason, unless it were satisfied that others could, and would, assume a similar role.

26. Nevertheless, to maintain all our current military tasks and capabilities outside Europe would impose an unacceptable strain on our overstretched forces, and bear too heavily both on our domestic economy, and on our reserves of foreign exchange. For all these reasons we have decided that, while Britain should retain a major military capability outside Europe, it should in future be subject to certain general limitations. First, Britain must not undertake major operations of war except as part of a collective force. Secondly, we must not accept an obligation to provide a foreign country with military assistance unless it is prepared to provide us with the facilities we need to make such assistance effective in time. Finally, there must be no attempt to maintain defence facilities in an independent country against its wishes.

27. We cannot forecast with any confidence precisely how Britain's forces will be deployed outside Europe at any given time in the 1970s, but in order to relax the strain from which our forces have suffered for so long, and to improve the ratio of home to overseas service, it will be necessary to keep a higher proportion than now in a home station, and to rely on air mobility. Nevertheless, it is desirable to take some decisions about the deployment of our forces now.

The Mediterranean

28. We have a direct responsibility for Gibraltar and a defence agreement with Malta. We also have a Treaty with /Libyas,
Libya, an obligation to support CENTO and responsibilities in Cyprus. We shall continue to discharge these responsibilities and obligations while making substantial economies in our establishments in Cyprus and Malta. For example, the RAF and Army numbers at Nicosia airfield will be considerably reduced, starting this year. We intend, in accordance with Article 5 of the Defence Agreement, to enter into consultations with the Government of Malta for a reduction of British Forces in the next few years; a range of defence facilities will, however, be retained. In Gibraltar, the garrison, airfield and naval dockyard and other establishments will continue to be maintained.

Middle East

29. South Arabia is due to become independent not later than 1968. We have informed the Federal Government that we intend to give up the base in Aden at that time. We shall be able to fulfil our remaining Treaty obligations in the area by making a small increase in our forces stationed in the Persian Gulf.

Far East and South East Asia

30. It is in the Far East and Southern Asia that the greatest danger to peace may lie in the next decade, and some of our partners in the Commonwealth may be directly threatened. We believe that it is right that Britain should continue to maintain a military presence in this area. Its effectiveness will turn largely on the arrangements we can make with our Commonwealth partners and other allies in the coming years. As soon as conditions permit us to do so, we shall wish to make some reductions in the forces which we keep in the area. We have important military facilities at present in Malaysia and Singapore, as have our Australian and New Zealand partners, and these we plan to retain. Against the day when it may no longer be...
possible for us to use these facilities freely, we have begun to discuss, with the Government of Australia, the practical possibilities of our using military facilities in that country if necessary.

Other Areas

31. It will be necessary for sometime yet to retain substantial forces in Hong Kong, but we can look with some confidence to a reduction of our commitments for the defence of our smaller dependent territories, some of which will soon achieve independence. We shall not require garrisons in British Guiana or the Southern African Territories for much longer. Island territories in the Atlantic, Indian or Pacific Oceans can readily be protected from our major areas of deployment.
III THE EQUIPMENT OF OUR FORCES

32. Against the background of the political commitments and military tasks which it foresees, the Government has been able to take some major decisions on the equipment of our forces. The main object has been to strike a balance between quantity and quality. Our forces must always possess enough of the arms and equipment required for the day-to-day tasks of peacekeeping throughout the world; it is also essential that they should have some highly-sophisticated weapons which can deter potential enemies from raising the level of a local conflict to a degree which might endanger world peace. We are determined to maintain a proper balance of capability in both these fields.

The Navy of the 1970s

33. The Royal Navy will exploit to the full the most modern technologies in the maritime sphere, particularly in nuclear propulsion and guided missiles. When the Polaris-carrying nuclear submarine fleet becomes fully operational in 1969/70, the Royal Navy will take over from the Royal Air Force full responsibility for the strategic nuclear deterrent, at a planned cost of under 2% of the total defence budget. By the early 1970s we reckon to have in service four nuclear-propelled hunter-killer submarines, which, with their long endurance and immunity to detection, will be a formidable part of our anti-submarine defences. We shall complete the conversion of the Tiger class cruisers to carry anti-submarine helicopters and we are planning a new type of ship to succeed them. We shall shortly order the first of a new, more powerful, class of guided missile ships - the Type 82 - to be equipped with the surface-to-air guided weapon Seadar, the Ikara anti-submarine weapon and the new Anglo-Dutch radar. We
shall develop a small surface-to-surface guided weapon for use against missile-firing craft. Our amphibious fleet - the commando ships and assault craft carrying Royal Marine commandos - will greatly strengthen our forces outside Europe.

34. The present carrier force will continue well into the 1970s; but we shall not build the carrier (CVA 01). This ship could not have come into service before 1973, when our remaining commitments will not require her and the necessary elements of carrier capability will have been replaced as explained below.

35. The conditions under which we intend to operate our forces outside Europe are set out in paragraph 26. There are limitations on the use of our present forces; we must face the fact that these limitations are likely to grow more severe. This is the background to any assessment of the case for keeping a carrier force in the Far East in the 1970s. Experience and study have shown that only one type of operation exists for which carriers and carrier-borne aircraft would be indispensable: that is the landing, or withdrawal, of troops against sophisticated opposition outside the range of land-based air cover. It is only realistic to recognise that we, unaided by our allies, could not expect to undertake operations of this character in the 1970s - even if we could afford a larger carrier force than planned.

36. But the best carrier force we could manage to have in future would be very small. The force of five carriers, which we inherited from the previous Government, will reduce to three in a few years' time. Even if CVA 01 were built, the force would be limited to three ships throughout the 1970s. The total cost of such a
force would be some £1400m over a ten-year period. For this price, we should be able to have one carrier permanently stationed in the Far East with another available at up to 15 days' notice. We do not believe that this could give a sufficient operational return for our expenditure.

37. We also believe that the tasks for which carrier-borne aircraft might be required in the late 1970s can be more cheaply performed in other ways. Our plan is that, in the future, aircraft operating from land bases should take over the strike/reconnaissance and air defence functions of the carrier on the reduced scale which we envisage that our commitments will require after the middle of the 1970s. Close anti-submarine protection of the naval force will be given by helicopters operating from ships other than carriers. Airborne early warning radar aircraft will be operated from existing carriers, which we intend to keep as long as we can for this purpose. Strike capability against enemy warships will be provided by the surface-to-surface guided missile already mentioned.

38. In order to give time to reshape the Navy and to reprovide the necessary parts of the carriers' capability, we attach great importance to continuing the existing carrier force as long as possible into the 1970s. The purchase of Phantom aircraft for the Navy will, therefore, go ahead, though on a reduced scale. The Buccaneer 2 will continue to enter service, and the ARK ROYAL will be given a major refit in Devonport to enable her to operate /both
both these aircraft until 1974/5. The gradual rundown of the Fleet Air Arm will be carefully arranged in order to give adequate alternative career prospects to officers and ratings who have served the Navy so well. Details are being promulgated to the Fleet.

Canberra Replacement

39. The key to the deterrent power of our armed forces is our ability to obtain early warning of an enemy's intentions through reconnaissance, and to strike at his offensive forces from a distance in case of need. Since the early 1950s this role has been assigned to the Canberra aircraft which cannot safely continue after 1970. By the later 1970s, we intend that the Anglo/French variable geometry aircraft should begin to take over this and other roles. Both operationally and industrially this aircraft is the core of our long-term aircraft programme. But if the RAF is not to be lacking in a most critical part of its capability for some five years, some arrangement must be made for bridging the gap. We have therefore decided to buy 50 of the F 111A aircraft from the United States on credit terms spread up to 1977. Until the Anglo/French variable geometry aircraft is available, the V-bombers will supplement them in the strike role, since the aircraft will cease to form part of our nuclear strategic forces when the POLARIS submarines come into service.

40. There is no other aircraft available by 1970 which can match the performance of the F 111A, particularly in reconnaissance. The only two competitors were a possible development of the French Mirage IV, with a Rolls-Royce Spey engine which would
give this high-level nuclear bomber for temperate climates the capacity for low-level conventional strike in tropical climates, or a developed version of the British Buccaneer 2. We ruled out the former on grounds of delivery date, cost and performance; the latter would have come too late into service and could not compare in performance with the F 111A. Neither of these aircraft is comparable with the F 111A in the reconnaissance role.

41. We have made arrangements to obtain a fixed price ceiling for the F 111A aircraft which should mean a cost per aircraft of less than one third the figure that would have applied to a similar number of the TSR 2. We are guaranteed full delivery of the 50 F 111As by the 1st January 1970. Moreover, we have taken steps to ensure that the foreign exchange cost of the F 111A will be offset almost completely by sales of British equipment.

42. In particular the American Government has agreed to remove all the price differentials operating against sales of British defence equipment in the United States, so that British firms may compete on equal terms in the American military market. As a first step the American Government is inviting tenders from British firms for the construction of naval auxiliaries to a value of some £50m.

43. The French Government have been informed of our decision. We have given them our firm assurances that it will not affect the Anglo-French programme for the development of the variable geometry aircraft or for the development of a short range ground-attack aircraft known as the Jaguar.
The ground-attack and short-range Army-support aircraft is the Hunter, which will have to be replaced by 1970. When we saw in early 1965 that its replacement, the P.1154, would be too costly and come too late into service, we abandoned the project. We planned to use instead a combination of American Phantoms and the British VTOL P.1127. This decision is now confirmed. We shall later be taking a strike version of the Anglo/French Jaguar so as to release Phantoms for the replacement of the Lightning.
Maritime Reconnaissance

Our plans are as announced last year. The long-range maritime reconnaissance force consists of Shackletons 2 and 3. The Shackleton 2s are to be replaced by a version of the Comet specially developed for the maritime role. There is now a firm production commitment for this aircraft which will come into service at the end of the 1960s.

Air Transport

Our strategy will rely increasingly on air mobility as our tenure of overseas bases grows more uncertain. The only change to the existing plans for the strategic transport force is the use of some C130s to make good shortcomings in the performance of the Belfast. We shall make a substantial improvement in our helicopter lift.

Industrial Implications for the Aircraft Industry

The programme provides for continued production in the United Kingdom of the Lightning, Belfast, VC.10, Buccaneer, Andover, Basset and Jet Provost. Apart from the C.130 and the P111A, all the aircraft for which specific new types are proposed will be equipped with British engines, and the British share in the production of the Phantom has reached 45%. The Ministry of Defence will also be paying the British aerospace industry about £130m. a year over the next 10 years for spares, maintenance and repair work. Though there will be no further development of the Buccaneer 2 beyond fitting the air-to-ground missile AJ.168, there will be major new aircraft programmes for British industry in the Anglo-French variable geometry aircraft, and Anglo-French Jaguar strike and trainer aircraft, the P.1127 and the maritime Comet.
49. This programme should provide sufficient support to enable the aircraft industry to develop in the long term on the lines proposed in the report of the Plowden Committee. Its adoption will bring the total savings on the 10-year programme we inherited in 1964 to about £1,200m.

Home Defence

50. We have completed a review of home defence. We have decided to restrict our civil defence preparations to those which would be likely to contribute significantly to national survival. Our plans were announced to the House on 2nd February. We have also decided to establish a Home Defence Force to supplement in the event of nuclear attack the substantial numbers of regulars and reserve forces which would normally be in this country. Details of this force were given to the House on the same date.

IV CONCLUSION

51. What then is the outcome of our review so far? We have planned a reduction in the tasks which we foresee in the 1970s, and we have taken decisions about our equipment, and about our regular and reserve forces, so that they match our commitments. As a result, we shall have got within about £50m of our target of £2,000m. We are satisfied that we shall be able to close the remaining gap, though we do not believe it would be wise to take final decisions now on the precise means of doing so. We have always recognised that the review must be a continuing process and that the exact way in which we achieve our final savings must hinge on the resolution of the unknown quantities in our equations.
52. As far as commitments are concerned, we shall be able to keep our contribution in Europe at roughly its present level, provided that some means is found of meeting the foreign exchange costs; in the Middle East, we shall give up the base at Aden and disengage ourselves until we have reached the hard core of our obligations to CENTO and States in the Persian Gulf; in the Far East we intend to play a substantial and constructive role in keeping the peace, always in close collaboration with our allies. But some realistic limitations must be applied to the scale and nature of our military effort there.

53. The forces which we shall get with the reduced defence budget will be modern, flexible and effective. We shall possess, with our aircraft and Polaris submarines, substantial nuclear power to contribute to international arrangements. Our forces in Europe will enable us to share fully in maintaining the political solidarity of NATO. We shall be able to cover all our defence and internal security tasks arising in protected and dependant territories and to support United Nations operations if required. The nuclear-powered submarines, the Type 82 destroyers and the F111A and Phantom aircraft will be among the most advanced military equipment in the world and will act as a strong deterrent to limited war. Our Army units, helicopters, frigates and amphibious forces will have great value in the day to day task of keeping the peace.

/In short
54. In short, we have been able to make significant savings of money and foreign exchange in return for a comparatively small reduction of our military capacity. At the same time, we think that, without sacrificing speed or mobility, we can relax the strain on our forces once the pattern of our commitments has been finally adjusted. If the price of defence today is high, at least we shall be getting value for money.
The defence review aimed at reducing defence expenditure in 1969/70 from about £2,400 million at 1964 prices, which would have been the cost of the programme we inherited from the previous Administration, to £2,000 million. It also aimed at reducing the foreign exchange cost of defence. On 5th August last year I told the House that we had managed to reduce the forecast total to about £2,180 million. I now submit proposals for taking the review as far as it can be taken at present.

2. The Defence and Overseas Policy Committee have reviewed all overseas defence commitments and have agreed that we should make some changes which would enable the cost of the forces to be reduced. A detailed statement of the resulting force structure, the assumptions on which it is based and its cost is contained in Annex A. The main assumptions on commitments are:

(i) our commitments to NATO in Germany will continue as at present planned but with some reduction in the provision of strike aircraft;

(ii) it will be possible to agree with the United States a sufficiently firm basis for joint action in Libya to limit our commitment to the provision of a secure point of entry;

(iii) in the Middle East we shall have no obligations to Aden or the South Arabian Federation after Aden becomes independent in 1968, and the commitment to assist Kuwait will be limited to the provision of air support unless the Ruler gives us time to move land forces from the United Kingdom or the Far East to Kuwait;
(iv) in the Indo/Pacific area we shall provide a visible military presence of sea, land and air forces based on Australia.

The defence review has throughout been based on the assumption that the confrontation of Malaysia by Indonesia will have ended before 1969/70.

3. The force structure described in Annex A would contain fixed wing aircraft carriers until 1975, but no new carriers would be built. The Army would be reduced to 176,000 and the Gurkhas disbanded.

4. Annex A shows that this force structure would require a defence budget of £2,060 million in 1969/70 at 1964 prices. The foreign exchange cost in 1969/70 would amount to about £195 million for stationing forces overseas and about £80 million for the purchase of equipment, a total of £275 million compared with £335 million on present plans, without taking account of any arrangements with the German Government to offset our foreign exchange costs in Germany or with the American Government to offset the cost of the F 111A purchase. All these figures assume that the revised deployment will be in full effect by 1st April 1969. In fact, however, the uncertainty about when confrontation by Indonesia will end, the physical difficulties of redeployment and reorganisation, added to other possible delays before the revised pattern of commitments can be put into effect, may well make this assumption unrealistic. It is not possible to estimate the amount of transitional expenditure involved.

5. Annex A also shows that in the years after 1969/70 there would be a small increase in the size of the defence budget. Whatever we decide about 1969/70 it is important that the Ministry of Defence should be able to plan on the assumption that if it proves to be necessary some small increase in later years will be permitted, perhaps related to the rate of growth of the Gross National Product.

6. I have considered what further economies might be made in order to eliminate the gap of £60 million between the estimated cost of the defence programme in 1969/70 and the target of £2,000 million. This difference is in fact accounted for by
the contingency allowance which we have added to the calculated cost of the programme to cover unexpected requirements and increases in costs other than those due to rises in pay and the price level. When we have the results of the 1966 Long Term Costing in June it may be possible to make some further reduction in this contingency allowance.

7. The only way of achieving substantial further savings without grave danger of failing to meet the commitments now envisaged would be to cancel the P-1127. This would save £35 million in 1969/70, though it would increase foreign exchange costs by £5 million. There is no other project which could be given up without a serious risk that commitments could not be met.

8. The assumptions about commitments on which the costing is based may well prove to be unrealistic. This is particularly true of the assumptions about the ending of confrontation and the redeployment of forces in Australia. My discussions in Canberra showed that, if we have to leave Singapore and Malaysia by 1969/70, there is no possibility of redeploying forces of the size proposed in Australia by then; moreover, even if redeployment were only postponed, it is unlikely that the Australian Government would agree that land forces of the size proposed should be based in Australia. It follows, therefore, that once we leave Singapore and Malaysia, we should be able to achieve some further savings in foreign exchange and, if the total size of the forces can be reduced, in budgetary expenditure also. However we are committed to remaining in Singapore and Malaysia as long as possible. We cannot base decisions on expenditure there, and particularly works expenditure, on an assumption that the forces will have been withdrawn by a particular date. We can only assume that, until confrontation ends, the forces there cannot be substantially reduced.

9. There are also other possibilities of changes in commitments which might yield further savings in due course. They include the ending of the residual commitment to the Ruler of Kuwait and some reduction in our forces in BAOR either as a result of a revised NATO strategy or because the Federal German Government fails to offset the foreign exchange costs.
10. If we can agree that the P 1127 should be cancelled it should not be difficult to close the remaining gap of £25 million. If the P 1127 continues some further major savings on commitments may well be necessary. In either case, however, it would be unwise to attempt to decide now which of the several ways in which the gap might be closed should be adopted.

Recommendations

11. I invite my colleagues -

a. to decide whether the P 1127 should be cancelled;
b. to agree that we should not attempt to decide for the present how the remaining gap between the cost of the defence programme in 1969/70 and the target should be closed.

D.H.

Ministry of Defence, S.W.1.

11th February, 1966.
THE REVISED FORCE STRUCTURE

Assumptions on Commitments

The revised force structure has been costed on the following assumptions about overseas commitments:

a. Berlin - Our tripartite commitment in Berlin will continue.

b. Germany - Our commitments to NATO in Germany will continue as at present planned. While we shall be able to rely on the use of the forces in Germany for reinforcement in real emergency, we should not rely on using them for such purposes any more than at present.

c. Caribbean - We shall withdraw our forces from the Caribbean, except for a company in British Honduras and a frigate which will be in the Caribbean part of the time, to meet internal security commitments in our remaining dependencies.

d. South Atlantic and South Africa - We shall make arrangements with the South African authorities to retain the use of facilities under the Simonstown Agreement without having to maintain a naval presence there, except an ice patrol vessel in the Falkland Islands and in the Antarctic.

e. Gibraltar - We shall maintain a garrison, airfield and other facilities, but there may be minor savings on naval facilities. The dockyard will continue to operate.

f. Mediterranean - There will be no naval force (or maritime patrol aircraft) permanently in the Mediterranean and our maritime commitment to NATO will be renegotiated. We shall continue to retain a commitment to provide nuclear support for CENTO.

g. Malta - Malta will be reduced to a staging post with an RAF reconnaissance squadron.

h. Libya - We shall secure a point of entry only by stationing one infantry company, an armoured car squadron and a stockpile of one squadron's worth of tanks in the El Adem/Tobruk area. RAF El Adem will be retained as a staging post but with minimum facilities only.
j. Cyprus - Akrotiri will be retained as a Sovereign Base Area (SBA) from which we shall provide nuclear support for CENTO. On the assumption that this commitment is to continue after the CANBEARAS phase out, it will be met by V-bombers stationed at Akrotiri. We shall have no obligations to Libya which require forces or facilities in the Dhekelia SBA.

k. Aden - After Independence in 1968, we shall have no obligations to, or defence facilities or forces in, Aden or the South Arabian Federation.

l. Persian Gulf - Our obligations to the other Persian Gulf States will continue and our commitment to come to the assistance of Kuwait will be renegotiated so that it is limited to the provision of air support, unless the Ruler gives us adequate time to move in the land forces from the United Kingdom or Far East to Kuwait. The force structure in this area should include a second battalion, and additional capital expenditure should not exceed £10m.

m. Hong Kong - We shall continue to provide a garrison of 6½ major units with a few coastal minesweepers, but no aircraft. It is assumed that the Hong Kong Government will increase their present defence contribution from £1.5m to £5.5m.

n. Indo/Pacific Area - We shall provide a visible military presence based on Australia, including naval and amphibious forces, with 7½ Army major units (including 2nd Commandos) and appropriate R.A.F aircraft for strike, maritime and Army support roles. Our forces will be unaccompanied. The Gurkhas will be disbanded.

Assumptions on Equipment

2. The following equipment assumptions have been taken to form the basis of a revised force structure related to these commitments:

   a. The new carrier CVA.1 will not be built. The present carrier force will continue until 1975. 55 PHANTOMS will be bought for the Royal Navy, those remaining when the carrier force is phased out (34) being handed over to the R.A.F. The carrier strike component will be reduced so there will be only a total buy of 96 BUCCANEER 2s, 52 of which will be available for the R.A.F in 1975.

   b. A total of 50 F111A aircraft will be purchased.
c. The P 1127 will continue with FCE.
d. The Type 82 destroyer will be provided.
c. The LANCE weapons system will be provided for E.M.R.
f. There will be naval represervation, above that in existing plans, for:
   (i) escort cruisers to succeed the TIGER class;
   (ii) the short-range anti-ship missile.

Force Structure

Royal Navy

3. The carrier force would remain in being until 1975, reducing from four to three ships in 1971. The abandonment of carriers would make it necessary to continue with a programme of ships to follow the converted TIGERS in the mid-1970s. These ships would reproduce the ASW capability and the fleet command facilities which would otherwise be lost with the carriers. The strength of the destroyer and frigate fleet would be reduced by nearly 20%. In detail, the changes in fighting units are, for 1969/70:

<table>
<thead>
<tr>
<th>Unit</th>
<th>Current Plan</th>
<th>New Plan</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carriers</td>
<td>4</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Commando/Assault Ships</td>
<td>4</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Cruisers</td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>GM Destroyers (COUNTYS)</td>
<td>8</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Other Destroyer/Frigates</td>
<td>86</td>
<td>70</td>
<td>16</td>
</tr>
<tr>
<td>Submarines</td>
<td>36</td>
<td>33</td>
<td>3.</td>
</tr>
<tr>
<td>Mine-Countermeasures</td>
<td>72</td>
<td>45</td>
<td>27</td>
</tr>
<tr>
<td>Vessels</td>
<td>213</td>
<td>167</td>
<td>46</td>
</tr>
</tbody>
</table>

(a) reducing to 3 in 1971 and nil in 1976.

Army

4. One of the assumptions upon which the force structure is based is that it will be possible to agree with the United States a sufficiently firm basis for joint action in Libya for us to limit our commitment to the provision of a secure point of entry.
5. The reduction in the total of the Army’s fighting units would be 4%, or 11% including the Gurkhas. At the moment there is the greatest difficulty in meeting the requirement for battalions to go on unaccompanied emergency tours overseas. This is having a bad effect on re-engagement and is causing other difficulties. Under the new proposals, five battalions will have to be stationed permanently overseas on planned unaccompanied tours apart from any additional battalions required for emergencies. If the infantry is to maintain itself up to strength under these circumstances, it is essential that a good sized pool of battalions is maintained in the UK to support unaccompanied battalions overseas, and the Army in the UK has been tailored to meet this requirement. In detail the reductions in units would be of the following order, subject to detailed study later:

<table>
<thead>
<tr>
<th>Current Plan</th>
<th>New Plan</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infantry Battalions</td>
<td>61</td>
<td>60</td>
</tr>
<tr>
<td>Gurkha Units</td>
<td>9⅓ (a)</td>
<td>Nil</td>
</tr>
<tr>
<td>RAC Regiments</td>
<td>23½</td>
<td>21½</td>
</tr>
<tr>
<td>R.T. Regiments</td>
<td>32½</td>
<td>31½</td>
</tr>
<tr>
<td>RE Regiments</td>
<td>16</td>
<td>13½</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>142</strong></td>
<td><strong>127</strong></td>
</tr>
</tbody>
</table>

Reduction in other supporting Arms and Services would be approximately 5%.

Note (a) Includes 3 Gurkha battalions, 1 Gurkha Engineer Regiment, 1 Parachute Company.

Royal Air Force

6. The Royal Air Force front line would be reduced by 1969/70 from the present planned force of 815 to 810. The main features of the new force structure would be:

a. Transport Forces. There would be no reduction in capability because the requirement to move the Strategic Reserve remains unaltered and indeed increased reliance is to be placed on the principle of overseas reinforcement. In addition to the front line of 46 C 130s to replace the HASTINGS and the BEFORS, nine C 130s have been included to offset shortcomings in the BELFAST; the total C 130 buy would be 66.

b. Air Defence. The global fighter force would be reduced by 24 aircraft to a front line of 96 by 1975 and to a front line of 84 by 1976, as LIGHTNINGS are replaced gradually by PHANTOMS released by the build-up of the JAGUAR force.
5

c. Tactical Strike/Reconnaissance. The present force of 150 CANBERRAS would start to be phased out of service in 1968/69. Their replacement would be confined to 36 front line F. 111s (from the buy of 50), supplemented by 96 front line V-bombers retained in a tactical role until the introduction of the Anglo/French variable geometry strike aircraft.

d. Ground Attack. The planned buys of 148 RAF PHANTOMS and 110 P 1127 to give front line forces of 84 and 60 respectively would be unchanged, but the JAGUAR would progressively replace the PHANTOM in this role from 1973 (see b. above); provision is made for a second stage development of the P 1127.

e. Maritime Tasks. The SHACKLETON Mk.2 force would be replaced by 30 HS. 801s (from a buy of 38); only 18 SHACKLETON Mk.3s would be retained in the front line instead of the 24 envisaged until recently. 36 front line PHANTOMS (making use of those made available by the RN) will be provided for maritime tasks after the withdrawal of the carriers. 36 front line ex-RN BUCCANEERS will also be provided for maritime tasks in 1975-77 until this role is taken over by the VG aircraft.

To provide a tactical reserve of personnel for overseas reinforcement, 2,000 extra men have been added to UK establishments.

Manpower

7. The Service strength (adult male) of the Forces would be as follows in 1969/70:

<table>
<thead>
<tr>
<th>Current Plan</th>
<th>Revised Force Structure</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>RN</td>
<td>95,400</td>
<td>92,000</td>
</tr>
<tr>
<td>Army</td>
<td>181,130</td>
<td>176,000</td>
</tr>
<tr>
<td>RAF</td>
<td>121,670</td>
<td>119,990</td>
</tr>
<tr>
<td>Total (UK)</td>
<td>398,200</td>
<td>387,990</td>
</tr>
<tr>
<td>Other</td>
<td>24,560</td>
<td>10,400</td>
</tr>
<tr>
<td>Total</td>
<td>422,760</td>
<td>398,390</td>
</tr>
</tbody>
</table>

(a) All Gurkha units (now planned to run down by 1969/70 from about 14,000 to 10,000) will have been disbanded. It has been assumed that the new Army Volunteer Reserve (establishment 50,000) will have taken the place of the existing Army Emergency Reserve and Territorial Army.

(b) There will in fact be a reduction in RAF strength overseas of 6,505, but this is offset by an increase in the UK of 4,855.
8. Numbers of women and boys would be reduced as follows:

- Royal Navy: 380
- Army: 1,567
- Royal Air Force: 0

Total: 1,947

There would be reductions in civilian numbers at home and overseas as follows:

- Royal Navy: 9,500
- Army: 26,500
- Royal Air Force: 3,300

Total: 39,300

Works Programme

9. A comparison of the works programme on present plans and for the revised force structure offers savings of about £100m between 1969/70 and 1975/76. A comparison for the first and last years is:

<table>
<thead>
<tr>
<th>Year</th>
<th>Present Plans</th>
<th>Revised Force Structure</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969/70</td>
<td>203</td>
<td>194</td>
<td>14</td>
</tr>
<tr>
<td>1975/76</td>
<td>153</td>
<td>138</td>
<td>15</td>
</tr>
</tbody>
</table>

10. For the purposes of this study it has been assumed that capital facilities in Australia will not have to be provided at UK expense. It has also been assumed, for costing purposes, that service in Australia will be unaccompanied and that, in general, units will change over once a year. The cost of the accommodation, storage and operational facilities required in Australia cannot be accurately estimated without detailed consultation with the Australian authorities. A rough estimate is that the provision of permanent accommodation for 22,000 military and civilian personnel, together with repair and storage facilities, airfield improvements, etc. would cost some £100m. This would obviously be a long-term programme spread over perhaps as much as ten years, depending on the capacity of the building industry in the chosen sites. For the first few years after the establishment of a base in Australia the majority of the facilities would have to be in temporary construction.

/Ministry of Aviation/
Ministry of Aviation R & D Programme

11. It has been assumed that there will be no development of an AM7 aircraft. In addition there will be no further development of the Buccaneer 2 although provision is made for fitting AJ 168 to the Buccaneer 2 and F 111A. There is also provision for the development of a short range surface-to-surface ship-borne weapon. It has been assumed that the reductions in the research field recommended in the Plowden Report will amount to £6m per annum. Allowing for variations and adjustments in the rest of the MOD programme since the 1965 Long Term Costing, it is estimated that the effect of the revised programme would be to reduce MOD expenditure in 1969/70 to £199m.

Other Expenditure

12. Other expenditure within the Defence Budget is now forecast at £60m (1965 prices) in 1969/70 and from about £50m to £30m a year in the subsequent period. Since the strategic nuclear force plans and plans for nuclear propulsion remain unchanged and capital charges incurred in the past by the Atomic Energy Authority have to be repaid, there is little scope for manoeuvre in the forecasts for fissile material costs which range from £23m in 1969/70 to a credit of £2m in 1975/76. Defence research expenditure (current forecast £25m in 1969/70) will depend on strategic nuclear policy for the 1970s and later; a reduction to £5m a year has been assumed. Finally, there is the Ministry of Defence Central Vote, a large part of which covers international defence organisations and NATO infrastructure. At present no reductions in our NATO commitment can be foreseen and, since last summer no provision was made for satellite communications which now appear to be a definite requirement, the Ministry of Defence Central forecast has been increased by £3m a year to allow for them.

Defence Budget

13. The cost, at 1965 costings prices (£m), of the revised force structure is estimated to be as follows:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Navy</td>
<td>538</td>
<td>516</td>
<td>529</td>
<td>577</td>
<td>558</td>
<td>558</td>
<td>528</td>
</tr>
<tr>
<td>Army</td>
<td>551</td>
<td>552</td>
<td>555</td>
<td>555</td>
<td>561</td>
<td>567</td>
<td>572</td>
</tr>
<tr>
<td>RAF</td>
<td>566</td>
<td>606</td>
<td>536</td>
<td>566</td>
<td>571</td>
<td>591</td>
<td>622</td>
</tr>
<tr>
<td>NORMAN</td>
<td>194</td>
<td>193</td>
<td>185</td>
<td>166</td>
<td>149</td>
<td>142</td>
<td>138</td>
</tr>
<tr>
<td>MOA</td>
<td>199</td>
<td>183</td>
<td>190</td>
<td>190</td>
<td>190</td>
<td>190</td>
<td>60</td>
</tr>
<tr>
<td>ADM</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Special</td>
<td>23</td>
<td>16</td>
<td>14</td>
<td>-4</td>
<td>-4</td>
<td>-4</td>
<td>-4</td>
</tr>
<tr>
<td>MOD</td>
<td>32</td>
<td>31</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>MOD Central</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2408</td>
<td>2132</td>
<td>2154</td>
<td>2105</td>
<td>2060</td>
<td>2079</td>
<td>2101</td>
</tr>
</tbody>
</table>
It is usual to add to these figures a contingency allowance for cost growth and to cover unforeseen objects of expenditure in the later years. The assessment of a sensible contingency allowance is by no means an exact science. The most reasonable assumption to take at this stage would appear to be an addition of £60m in 1969/70 rising by £25m a year to £210m in 1975/76. On this basis the forecast, at 1965 costings prices (£m), would be best expressed as:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2168</td>
<td>2217</td>
<td>2264</td>
<td>2240</td>
<td>2220</td>
<td>2264</td>
<td>2311</td>
</tr>
</tbody>
</table>

1965 costings price levels were, however, almost exactly 5% (£104m on £2000m) higher than Defence Review price levels (1964 prices). At Defence Review prices (£m), the overall Defence Budget estimate is therefore:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2060</td>
<td>2106</td>
<td>2151</td>
<td>2128</td>
<td>2109</td>
<td>2151</td>
<td>2196</td>
</tr>
</tbody>
</table>

Foreign Exchange

14. The latest forecast of foreign exchange costs in 1969/70 which would result from the stationing of Forces overseas under present plans is as follows (£m 1965 costings prices):

<table>
<thead>
<tr>
<th>Region</th>
<th>Germany</th>
<th>Mediterranean</th>
<th>Aden/ F. Gulf</th>
<th>Indo/ Pacific (exc. H.K.)</th>
<th>Hong Kong</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>94</td>
<td>36</td>
<td>35</td>
<td>71</td>
<td>10</td>
<td>14</td>
<td>260</td>
</tr>
</tbody>
</table>

Deployment in accordance with the revised assumptions would reduce foreign exchange in 1969/70 by about £65m, giving a total of about £195m as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Germany</th>
<th>Mediterranean</th>
<th>F. Gulf</th>
<th>Indo/ Pacific (exc. H.K.)</th>
<th>Hong Kong</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RN</td>
<td>-</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>27</td>
</tr>
<tr>
<td>Army</td>
<td>62</td>
<td>3</td>
<td>3</td>
<td>11</td>
<td>7</td>
<td>3</td>
<td>89</td>
</tr>
<tr>
<td>RAF</td>
<td>11</td>
<td>8</td>
<td>3</td>
<td>11</td>
<td>-</td>
<td>2</td>
<td>35</td>
</tr>
<tr>
<td>Other</td>
<td>21</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>7</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>19</td>
<td>15</td>
<td>42</td>
<td>12</td>
<td>13</td>
<td>195</td>
</tr>
</tbody>
</table>

\* including Aldabra
15. Other defence foreign exchange expenditure, including the purchase of foreign military equipment, would on current plans be about £95m net in 1969/70, and about £80m net under the revised plans. Thus the total estimated foreign exchange costs in 1969/70 are £355m (current plans) and about £275m (revised plans).

Conclusion

16. a. Without the addition of a contingency allowance, the cost of the revised force structure in 1969/70 is about £2000m but with the addition of an allowance of £60m, the cost is £60m above the ceiling.

b. Local stationing costs (foreign currency) would be reduced by £65m in 1969/70. The corresponding reductions for other foreign exchange costs (largely for the purchase of foreign equipment) would be £15m.

c. It would not be possible to contain expenditure at the 1969/70 level in subsequent years without further reductions in commitments or capabilities; but expenditure could be contained within a rate of increase lower than the forecast rise in GNP.
11th February, 1966

CABINET

DEFENCE REVIEW: THE F.111A OPTION

Memorandum by the Secretary of State for Defence

Since the TSR.2 was cancelled and an option taken on the F.111A we have thoroughly reviewed the requirement for a Canberra replacement in the wider context of the Defence Review.

2. The first step was to establish whether it was necessary to renew the capability for reconnaissance and tactical strike. The studies have shown that this capability is essential to meet our reduced responsibilities and commitments. Though we have made major savings in our defence programme, we are still going to make an important contribution to world peace and stability; we shall retain obligations to allies and friends which we must honour. If we are to fulfit these tasks it would be militarily and morally wrong to commit our land, sea, and air forces unless we had adequate reconnaissance to give us the information we need - not least for political decision - and some tactical strike aircraft to protect our forces from attack. Indeed, the very existence of this capability could well enable us to avoid operations taking place at all.

3. The Canberra has been in service since 1952. It has given excellent value for money. But its credibility and viability is fast disappearing. Its performance and age will make it hazardous for operations. It must be replaced by the end of this decade.

4. The second step was to establish what aircraft is needed to meet these tasks in the light of the choice available to us and taking account of the industrial and financial factors. Most thorough and far-reaching studies have been carried out. The conclusion is that we need to make a small purchase of F.111As for the reasons summarised in the Annex. There is no other way of providing for a Canberra replacement when it is required which will not significantly increase the defence budget now planned.

5. By placing future reliance on the Anglo/French variable geometry aircraft which it is hoped will come into service in 1974/5 (and is the cornerstone of future European co-operation) we have been able to reduce greatly the number of reconnaissance and tactical strike aircraft we need in the interim. We inherited a programme of 158 TSR.2s, reduced this last year when the TSR.2 was cancelled to 110 aircraft, and are now concerned with 50 F.111As only. Each F.111A will cost per aircraft considerably less than a third of a similar number of TSR.2s had we continued with this aircraft.

6. The timescale is critical in two senses. First, in relation to the need to replace the Canberra - the F.111A is two to three years ahead of any of its competitors. Second, because of the need to avoid any clash with the development of the Anglo/French project. Indeed, a limited purchase of F.111As will be the best assurance to the French that we intend to go on with the joint aircraft and will have room for it in our future programme.
Negotiations with the United States Government.

7. The Arrangement with the United States Government signed in April last year gave us an option on up to 110 F.111A aircraft. The Defence and Oversea Policy Committee agreed that when I discussed the provisional results of the Defence Review with the United States Government in Washington recently I should open discussions, without commitment, on the terms for the possible purchase of 50 F.111A aircraft, the aim being to secure better terms and some reciprocal United States action. Very substantial progress was made both in Washington and in subsequent negotiations in London. In brief, the United States Government is not only willing to apply the same terms to 50 aircraft as previously applied to 110 aircraft (which the 1965 Arrangement specifically did not require them to do so) but other significant concessions have been obtained. The main features are these:

(a) all the United States aircraft purchases are now covered by a credit of up to $1250m at 4\% per cent interest which is so arranged that payments are deferred and spread at an even rate over the years until 1977. The majority of the money does not have to be spent until after 1969/70;

(b) the first 10 F.111As are subject to a ceiling price and the remaining 40 would be bought at the average price applying to aircraft bought by the United States Government who have already authorised requirements for some 700 aircraft. There is a contingency margin of about £340,000 per aircraft against price escalation;

(c) the United States Government has agreed that delivery of all 50 aircraft would be completed not later than January, 1970;

(d) the United States Government has accepted a target figure of $325m for their purchase over the period of the credit of British defence equipment and a target of $400m for the British element of co-operative sales of defence equipment and supplies to other countries of which the initial sale of $200m to Saudi Arabia forms a part. These targets cover the cost of the F.111A. In respect of all reciprocal purchases the price differential of the Buy American Act and the temporary regulations giving a price differential of 50 per cent against foreign bids in the defence field will be waived;

(e) on foreign exchange costs in Germany the United States Government has agreed to join us in pressing the German Government to make greater purchases in both the United Kingdom and the United States;

(f) the United States has also agreed to support us in a NATO burden sharing exercise.

8. I still hope to secure one or two further gains on which discussions are still proceeding. I will report orally on these. We should not underestimate the importance of the concessions that have been obtained. We have been pressing the Americans for many months to agree to firm target
figures for purchases from Britain but up to now they have refused. Mr. McNamara has now agreed to substantial targets despite the large reduction in the number of F.111As we are contemplating and also in the number of Phantoms and C.130's. Moreover, the Phantom will now be about 45 per cent British built and equipped.

9. The reciprocal purchases target will ensure for the first time that we get a foot in the door of the American military market on a strictly competitive basis. In recent years few British firms have felt it worthwhile to tender for American contracts but the agreement to waive the present penalising differentials is a major breakthrough which, over the years, could bring us substantial gains.

10. The overall position on foreign exchange for defence equipment also shows considerable improvement. When we cancelled the TSR.2, the P.1154 and the HS.681 the estimated dollar expenditure of the alternative aircraft was put at £1011m not all of it covered by credit, and without taking full account of interest. An important element in our thinking then was that the overseas currency bill for buying foreign equipment would in practice be offset by the freeing of productive resources in this country. It was said at the time that if 40 per cent of the liberated resources could produce exports or save imports (a very modest proportion for the engineering industry) this would offset the additional overseas expenditure. The foreign exchange cost over the next 10 years is now much reduced as a result of the smaller number of R, N, and R.A.F. aircraft we need to buy as a result of the Defence Review. It is now just over £700m (including the interest) with all capital costs covered by credit arrangements with payments spread over 12 years. Only one fifth of the overseas expenditure will fall in the next four years.

11. The agreements for reciprocal purchase and co-operative sales total nearly £260m. The foreign exchange cost of 50 F.111As including the purchase of the aircraft, research and development associated with it, support and running costs over the next 10 years is £235m to which must be added £30m for interest. In more general terms the result of the Defence Review as a whole is that, broadly speaking, the cost of equipment purchases even after including the earlier Polaris deal will be balanced by the dollar receipts for the reciprocal arrangements described above and the receipts expected from the expenditure by United States forces stationed in this country.

Conclusion

12. The military requirement for some F.111As is proven. A small purchase will help to keep the way clear for the development and introduction of the Anglo/French variable geometry aircraft which is vital to industry and to the future of European co-operation. As a result of negotiations with the United States Government I believe that we have secured as favourable a position as possible on reciprocal actions by the United States and good terms for the aircraft itself. I recommend therefore that the Cabinet should
(a) endorse in principle a decision to buy 50 F.111A aircraft subject to the satisfactory outcome of detailed negotiations;

(b) agree to this decision being announced in the Defence White Paper in the context of the Defence Review as a whole;

(c) note that in consultation with the Foreign Secretary and the Minister of Aviation that I propose to inform the French Government in confidence of our future aircraft programme prior to decisions being announced.

D.H.

- Ministry of Defence, S.W.1.

11th February, 1966
ANNEX A

THE CANBERRA REPLACEMENT

When the TSR2 was cancelled, an option was taken on the P111A (C(65)1: C(65)6: CC(65)21 Item 1) as an insurance policy pending examination, as part of the Defence Review, of the requirement for this type of aircraft and of the possibility of meeting such a requirement in other ways.

2. The terms of the option gave until 1st January, 1966 to take a decision. When it became clear last December that this date would not fit in with final decisions on defence commitments, the US Secretary of Defense agreed to a postponement of the date to 1st March, 1966.

Implications of the Defence Review

3. During the last year there has been a most thorough examination of our likely future commitments

of the scale and effect of alternative military capabilities and the comparative merits of aircraft. The results have already been discussed in some detail by the Defence and Overseas Policy Committee. The following paragraphs summarise the case for the P111A which has emerged from a great weight of effort in a highly complex and technical field.

4. Firstly it is clear that, even with the reductions in our future commitments and the level of defence expenditure now proposed, we shall still have considerable responsibilities and the need to retain a capability to contribute to maintaining the peace worldwide. To perform their tasks it is essential that our forces should have adequate reconnaissance and tactical strike capability sufficient to provide a deterrent against smaller countries and, if necessary, to deal with their offensive power. Air reconnaissance could by itself enable the Government to prevent the outbreak of active operations on a small scale, for example by timely diplomatic action or by suitable deployment of forces. Intelligence studies show that several second or third class powers will have considerable and effective military potential in the 1970's. It would therefore be wrong to commit our troops and other forces in even minor operations without it being manifestly clear to them that we had under our own control the capability to deter, or if need be to take out, air attack on them.

5. Secondly, when we are considering our requirements for the decade 1970-1980, we must not do so exclusively in the context of current preoccupations with Indonesian confrontation. Tensions may arise again in Africa. India may call for support against China. These are just two examples. It is therefore essential that our tactical aircraft should appear credible to trouble makers and be able to offer the maximum coverage from the airfields likely to be available.

6. It is against this background that the Canberra replacement must be selected. The following points, which should be read in conjunction with the maps in Appendices 1-3, represent a brief summary of the conclusions that have been reached:

/a.

SECRET
a. the Canberra needs to be replaced from 1968/69; politically we have given assurances about the timely re-equipment of our forces;

b. there are operational as well as financial advantages in combining the roles of reconnaissance and tactical strike in one aircraft;

c. only an aircraft with the F111A type performance at height, including supersonic speed and ability to take long range oblique photographs, could meet the reconnaissance task as a whole;

d. provided that we have an element of high quality aircraft within the strike force, it would be acceptable to take the risk of extending the life of the V-bombers (which could become available when the RN Polaris submarines take over the deterrent role in 1968/70) to meet part of the task up to 1975. This would not only reduce costs but would enable us to adopt the Anglo-French VG aircraft (for which a Memorandum of Understanding was signed in May last) when it becomes available about 1974/5. This project is intended to be the cornerstone of our policy for collaboration in Europe on which the future of our aircraft industry depends;

e. the advent of the Anglo-French aircraft has significantly reduced the number of high quality aircraft that we need to acquire in the short run. The Air Staff have stated specifically that they would not want a large purchase of F111As since the future lies in the Anglo-French development.

7. Apart from the F111A there are two other possible contenders, the Spey Mirage and a developed version of the Buccaneer.

8. The Spey Mirage would have a performance between the F111A and a developed Buccaneer. But it has been ruled out because it could not be available before 1970/71 at the earliest, does not meet the requirement in certain important respects and involves a considerable (£50M) research and development programme which must be regarded as subject to some risk. It already seems likely to be the most costly solution for an aircraft which would have to be largely developed and built in France. The French Government has no requirement for it.

9. As regards a developed version of the Buccaneer:

a. it would be significantly later than the F111A; on the basis of a specifically optimistic forecast for the development and production of this aircraft, no developed Buccaneers would have been delivered before the RAF can expect to receive all its F111As;
it is critically dependent in respect of both delivery dates and performance on the successful development of a new radar by a manufacturer who has no previous experience of producing a nose radar and putting it into service;

c. it could not in practice satisfy the stringent conditions imposed for discreet reconnaissance tasks today, let alone in the 1970s; limitations of height and speed make it unsuitable for this role quite apart from inadequacies of range;

d. as a tactical strike aircraft it would have in all conditions less than half the range of the F111A (see the maps at Appendices 2 and 3);

e. in budgetary terms its provision and support would be more expensive than the F111A, because in the tactical strike role 2 Buccaneers would be needed for 1 F111A, even without making separate additional provision for a reconnaissance aircraft which would need to be of the F111A type;

f. even on a 2 to 1 basis the Buccaneer would need to be supplemented with a force of tanker aircraft for flight refuelling;

g. the Buccaneer needs longer runways than the F111A (which moreover is not dependent on concrete);

h. a subsonic combination of Buccaneers and V-Bombers would consequently be far less credible as a conventional deterrent than one made up of F111As and V-bombers.

10. Militarily these arguments are decisive. The formal advice given by the Chiefs of Staff is that the F111A is essential. Indeed we are also advised in the context of the force structure as a whole that the P1127 should not be retained at the expense of the F111A if it proved otherwise impracticable to obtain the P1127 within the approved ceiling of defence expenditure.

11. To sum up so far, the right answer is a two-stage replacement of the Canberra by:

a. a front line of 36 F111A (compared with the 74 projected in C(65)57 and 106 previously) together with the residual V-Bombers which become available when they are replaced by Polaris submarines;

b. at a later stage from 1974/5 by the Anglo-French VG aircraft in place of the V-Bombers.

/Industrial Implications/
Industrial Implications

12. The way ahead for the British aircraft industry has become clearer in recent months. We need a viable but smaller industry with a much tighter structure; we need the maximum degree of co-operation and joint production; we need to maintain the requisite degree of technological and scientific advance. Leaving on one side such civil projects as the Concord and any projected Aerobus, a military programme containing the Anglo-French variable geometry aircraft, the Anglo-French light strike/trainer (the Jaguar) and the F1127 should meet these needs.

13. The developed Buccaneer (which like the P1127 is a Hawker-Siddeley project) offers as an airframe no technological advance nor can there be a prospect of further development for an aircraft designed in the 1950's. It could hinder sensible rationalisation of BAC and HSA, and would mean that we were devoting our valuable research and development resources to two strike aircraft (the Anglo-French VG and the developed Buccaneer) in two different firms both to be produced in the first half of the 1970s. This cannot make sense. Moreover, a developed Buccaneer (like the Spey Mirage) would clash with the Anglo-French project. We can in fact demonstrate to the French that a limited buy of F111As is a much better assurance of our intention to go on with the joint VG aircraft than the larger buy of developed Buccaneers that we should have to make for the tactical strike role alone.

Conclusions

14. It is therefore concluded that:

a. only the F111A will give us in one aircraft and at the right time the manifest military capability we need in the fields of reconnaissance and tactical strike;

b. the much reduced buy of F111As now proposed (36 front line) enables us to go ahead with Anglo-French co-operation and does not jeopardise our plans for the aircraft industry.
Note on Comparative Radius of Action Maps

Introduction

This Note and the associated maps compare the basic capabilities of the F 111A and the developed Buccaneer in terms of range and bombload. Inevitably they can only be illustrative. To make a complete comparison other factors need to be considered; accuracy of navigation and bombing; quality of radar; vulnerability; low-level flight; flexibility derived from additional range. But the two criteria of range and bombload are critical ones and form the basis for a reasonable comparison.

Reconnaissance

2. Appendix 1 illustrates the extensive reconnaissance cover which the F 111A can provide from six of the airfields which we plan to use in the 1970s.

3. The radius of action of the developed Buccaneer has not been shown because of its unsuitability for the reconnaissance role. The Buccaneer could not be used in any reconnaissance which brought it near or over defences of the level which can be encountered now, let alone in the 1970s, because of its limitations in height, speed and stand-off photographic capability. In other circumstances, and allowing for part of the flight being supersonic, the F 111A's radius of action is still nearly half as much again as the wholly subsonic Buccaneer.

Tactical Strike

4. Examples of the comparative range capabilities of the F 111A and a developed version of the Buccaneer can be seen by reference to the maps at Appendices 2 and 3. Range and bombload capabilities are the same for all of the developed versions of the Buccaneer.

5. Appendix 2 shows the extent of the cover over target areas to the West, North and North-East of the Indian Ocean which each type of aircraft could provide carrying a 10,000 lb bombload. This bombload has been selected for the purposes of comparison since it is the maximum a developed Buccaneer could carry. The F 111A can in fact normally take 13,000 lbs and with its wings unswept up to 34,000 lbs.

6. Appendix 3 illustrates the cover available from both aircraft when carrying a 2,000 lb bombload and represents the maximum radius of action of which each aircraft is capable. This limited weight of conventional weapons would not normally be operationally profitable when carried by a small force, but still permits strike tasks to be carried out when deep penetration is the requirement.

/In
In addition this 2,000 lb load equates with the weight of nuclear weapons which these aircraft could deliver, and consequently the map also shows the extent of the protective nuclear umbrella which could be provided, for example, in relation to India.

7. In between these two illustrations which represent the two extremes for the Buccaneer, there is a wide variety of combinations of weapon loads and radii of action, just as there are further performance data for the F 111A up to its maximum bombload of 34,000 lb. Where range is not critical, the F 111A affords a significant advantage in terms of weapon load. On the other hand, where maximum range is needed, the F 111A has significantly more reserve in hand. In all circumstances the F 111A has greater flexibility and safety in deployment and operations.

Flight Refuelling

8. The range of both types of aircraft could be extended by in-flight refuelling. While there are few areas of likely operation where this would be necessary with F 111As, it would be necessary to resort to this technique with Buccaneers in many situations. For example, when carrying 10,000 lb of bombs the F 111A has more than four times the radius of action of the Buccaneer. To enable the latter to achieve the same target coverage with the same bombload each Buccaneer would have to be refuelled in flight on two or more occasions. The actual transfer of fuel in flight is a tried and reliable procedure but both the Buccaneers and the tankers would be vulnerable when the rendezvous had to be made in hostile air space. In any event the need to apply this technique several times to each of a number of aircraft proceeding to attack targets simultaneously in a variety of locations would require a considerable number of extra tankers which would need to be permanently available for this purpose alone if a state of readiness was to be sustained as part of a deterrent deployment.

9. In some situations, cutting down the Buccaneer's bombload would be an alternative way of increasing the aircraft's range. However, this adds to the number of Buccaneers needed to achieve a given task. A typical situation studied during the Defence Review showed that, compared with the number of F 111As required, two to four times as many Buccaneers were needed and even then some flight refuelling was still necessary.
RECONNAISSANCE F.IIIA
Coverage from 6 Airfields

SCALE AT EQUATOR (Approx.)

SECRET
RECONNAISSANCE F.IIIA
Coverage from 6 Airfields
TACTICAL STRIK

(Conventional Weapons)

Indo-Pacific Area

Coverage from 6 Airfields

Coverage with 10,000 lbs.
TACTICAL STRIKE
(Conventional Weapons)
Indo-Pacific Area
Coverage from 6 Airfields

Coverage with 10,000 lbs. of Bombs
LEGEND
HIGH-LOW (200)-LOW (200)-HIGH
MAXIMUM OVERLOAD FUEL
2,000 lbs/NUCLEAR WARLOAD

RADIUS OF ACTION
Buccaneer 780 n.ms.
F IIIA 1,860 n.ms.
TACTICAL STRIKE
(Conventional or Nuclear Weapon)
Coverage from 8 Airfields

The Map Shows the Areas to which Bombs or a Nuclear Weapon could be Dropped.
Appendix 3 to Annex 'A' to
February 1956

TACTICAL STRIKE
(Conventional or Nuclear Weapons)

Coverage from 8 Airfields

The Map Shows the Areas to which 2,000 lbs. of Bombs or a Nuclear Weapon could be Delivered
15th February, 1966

CABINET

LEASEHOLD REFORM: DRAFT WHITE PAPER

Note by the Minister of Land and Natural Resources

As invited by the Cabinet on 10th February (C(66) 7th Conclusions, Minute 2) I circulate herewith a draft White Paper on Leasehold Reform in England and Wales.

I draw particular attention to the alternative passages in paragraph 17 which provide for further consideration of the rights of the freeholder to resist enfranchisement on the grounds that he wishes to redevelop the property.

F.T.W.

Ministry of Land and Natural Resources, S.W.1.

15th February, 1966
The Purpose

1. The aim of leasehold reform is to adjust the social and legal relations of landowners and leaseholders on a fair and just basis. Leasehold has been a subject of social concern for generations. It has worked unfairly, to the advantage of the landowner and to the detriment of the leaseholder, because the landowner is entitled to take, free of charge, the house and improvements created wholly by and at the expense of the succession of lessees. In the last century or so, landlords have imposed inequitable terms upon leaseholders who wished to build homes for the growing urban population, and since 1884 there have been many unsuccessful attempts to remedy this basic inequity. More recently, the Landlord and Tenant Act 1954 allowed the leaseholder to continue in occupation only under the terms of a statutory tenancy and that only at a rack rent. At the same time it produced the unexpected result of depreciating drastically the value of the landlord's interest. This Act failed to cut at the root of the problem, which is to recognise the leaseholder's right to the buildings and to entitle him to buy the freehold.

2. The Government believes that a just solution of the leasehold problem must recognise the occupying leaseholder as the owner of the buildings. The fundamental premise is that the occupying leaseholder continues to own the buildings and that the landowner's entitlement is consequently no more than a fair ground rent. Although this will involve a readjustment in the contractual relations of landowner and leaseholder, the result will be to place them on an equal footing.
Three circumstances emphasise the need for immediate action. First, most people buy their house on mortgage and many are likely to suffer from the leasehold system. A purchaser on mortgage may pay a virtually freehold price for a lease with a good many years to run but as he reaches the end of his mortgage term he will feel a sharpening sense of injustice. He will realise that after he has discharged the mortgage he will have an interest far less than that which he bought and on which a subsequent purchaser may not get a mortgage. This is the reality now confronting many owner occupiers who purchased their houses on setting up home immediately after the War. Second, in South Wales and in some English areas, in Victorian days, houses had to be built on leasehold terms. These leases are beginning to fall in and such householders are experiencing the harshness of the leasehold system. Third, an increasing number of houses for owner occupation are being provided on leasehold terms. Often, the new landlords seek to exploit the housing shortage in order to make the maximum profit from their investments. They have invested in the right to receive money by way of an annual payment in the form of a ground rent. It is surely right to protect householders from such exploitation by giving them the right to purchase the freehold at a fair price.

The Plan

4. The Government is, therefore, introducing a Bill to give leaseholders with an original long lease greater security and to enable them to acquire the freehold on fair terms. The Bill is based on the principle that the land belongs in equity to the landowner and the house belongs in equity to the occupying leaseholder. It follows that the leaseholder will have the right to retain his house after the lease expires and the right to enfranchise his lease.
Qualified Leaseholders

5. In view of the nature of the transactions during the lease, the leaseholder who lives in his house has a greater claim to enlarge his interest than the leaseholder who (like the landowner) is concerned in the property only as an investment. In order to come within the scope of the legislation a leaseholder will have to satisfy two conditions:— (i) he must hold a lease, originally granted for more than 21 years at a ground-rent, of a house the rateable value of which does not exceed the Rent Act limits (£400 in London, £200 elsewhere); and (ii) he must be occupying the house as his residence and must have done so continuously for at least the last 5 years. For this purpose, any period during which he may have occupied the house as a rack-rent tenant before acquiring the lease will not count.

6. These conditions do not have to be satisfied at the time when the Bill becomes law. A leaseholder will come within the scope of the legislation if he satisfies the conditions at any time in the future, whether the lease was originally granted before or after the legislation.

7. In accordance with the assurance given on behalf of the Government by the Minister of Housing and Local Government on 8th December 1964, any leaseholders whose leases expired after that date and who when the Bill becomes law are still occupying their houses, on whatever terms, will be brought within the scheme.

8. Leasehold flats are not included in the proposals because it is almost impossible, in the present state of the law of landlord and tenant, to devise satisfactory covenants to govern freehold flats. This general problem is complex and it cannot properly be dealt with in the narrower frame of this legislation. For this reason the Government will consider the difficulties of flat owners together with the recommendations of the Committee on Positive Covenants Affecting Land (the Wilberforce Committee).
Security of Tenure

9. Although he acquires the right of enfranchisement, the qualified leaseholder may not want, or may not find it financially convenient, to enfranchise. It would be wrong, however, to permit the landowner on the expiry of the lease to expropriate the house, particularly if it is still in good condition. The legislation will entitle a qualified leaseholder to an extension of his existing lease for a period of 50 years after its present expiry date, but with no right to a further extension thereafter. This provision should generally cover the life of an existing house.

10. The landlord, on the other hand, is entitled to a modern ground rent for the continued use of his land because the present ground rent is usually fixed for the term of the lease and, as a result, the landlord may well be prejudiced by the fall in its real value. During the extension therefore the ground rent will be a modern ground rent attributable to the site. It will be such an amount as may fairly reflect the site value subject to its current use by the leaseholder. After 25 years, the ground rent will be reviewed to bring it up to date.

11. Subject to provision for special cases, a qualified leaseholder will have the right at any time during the lease to acquire the freehold by buying out the landlord compulsorily. It is important to ensure that the price paid for enfranchisement is a fair price. But present market prices reflect the position under the present law which is inequitable to the leaseholder and the price for enfranchisement must accordingly be based not on present market values but on the value of the land itself, including any development value attaching to it. The price of enfranchisement must be calculated in accordance with the principle that in equity the bricks and mortar belong to the qualified leaseholder and the land to the landlord.
12. It follows, and the Bill will so provide, that where there is no development value, and often there will not be, the price for enfranchisement is a fair equivalent of the landlord's interest in the land for its current use by the leaseholder. The landlord will be entitled to receive on enfranchisement a fair price being an amount not exceeding the value of the freeholder's interest in the site, subject to the lease and its extension of 50 years, and completely disregarding the value of the buildings on reversion.

13. In many cases consideration of development value will not arise; and it is really material only in the last phase of the lease. Although the leaseholder under the terms of the lease may not apparently have any development value, his ability to prevent the landlord from gaining possession effectively gives him a share, and the full development value in the land is thus at present divided between the landlord and the leaseholder broadly by the amount of deferment which the leaseholder can impose. But of course with a few years to go, most of the value is with the freeholder.

14. Where there is development value, the fair price will include also the value to the freeholder of the development rights as at the date of enfranchisement and without regard to the extension of the lease. On this part of the price the freeholder will be subject to betterment levy assessed in accordance with the Land Commission Bill now before Parliament. In some cases development rights already have a considerable value and the fair price will be comparatively high. But if a qualified leaseholder prefers not to enfranchise he will not be at risk

* This means that site value will be assessed as part of the value of the land and buildings existing at the time of the enfranchisement and on the assumption that the covenants of the lease have been complied with and that material development would not be permitted.
of losing his home for he will be protected by the extension of the lease to 50 years and his extended lease will be a valuable asset so that if he wants to move he will be able to sell it.

15. Nothing in these provisions will be unfamiliar to those concerned with ordinary transactions in land and in the great majority of cases the leaseholder and the landlord should have little difficulty in arriving at a settlement. As in other cases of compulsory purchase, the parties will have access to the Lands Tribunal if there is disagreement.

Special Cases


(a) Land Commission

Qualified leaseholders will be able to enfranchise long leases held from the Land Commission but if the lease is on crownhold terms, the freehold will be on the same terms and will thus reserve to the Commission all future development value.

(b) Local Authorities

If a qualified leaseholder holds from a local authority and the local authority needs the site for early development, the appropriate Minister (usually the Minister of Housing and Local Government or the Secretary of State for Wales) will have discretion to bar enfranchisement, since it would be absurd that the leaseholder should be able to enfranchise only to have the property compulsorily purchased soon afterwards. In all other cases a qualified leaseholder will be able to enfranchise against a local authority but he will not be able to acquire the development rights. The price will not, therefore,
include any element of development value but if the local authority later re-acquires the property the compensation paid will be limited to what the leaseholder had purchased, the value of the land for existing use, and also the bricks and mortar value of the buildings and improvements. A qualified leaseholder who holds from a local authority will in all cases have the right to an extension of his lease for 50 years.

(c) Other Public Authorities

Qualified leaseholders holding from other public authorities (including for this purpose universities as well as government departments, New Town Authorities and statutory undertakings) will have the same rights as those holding from local authorities.

(d) Crown Estates and Royal Duchies: National Trust

Arrangements will be made to enable qualified leaseholders holding leases under the Crown Estate or from the Duchies of Cornwall or Lancaster also to enjoy the same benefits as leaseholders holding from local authorities. In such cases, when leases are granted on special terms designed to ensure the preservation of houses of special architectural, historic or amenity value these will be excluded from the legislation. In the same way, provision will be made to exclude such property as that held inalienably by the National Trust.

(e) Housing Associations:

Housing associations normally let houses on short leases at a rack-rent, so they will seldom have leaseholders qualified under the Bill. But in any
case, since Housing Associations exist only for the benefit of their tenants it would not be appropriate to give rights against them under this scheme. Nothing in the legislation will prejudice any powers of compulsory acquisition belonging to local and public authorities under other Acts.

Rights of Freeholders

17. During the term of the original lease the landlord will have the right to refuse either enfranchisement or an extension of the lease if

(a) he intends on the expiry of the lease to occupy the house by himself or his family and his hardship would be greater than the leaseholder's if this intention were frustrated,

or - as the Lord Chancellor would prefer -

(b) he intends after the expiry of the lease to redevelop the property.

(Note: the inclusion of ground (b) is subject to further consideration by the Cabinet.)

18. If the landlord succeeds in doing this he will be liable to pay compensation to the leaseholder when the lease expires: this compensation will be the value of the leasehold interest which the leaseholder would have acquired if the lease had been extended for 50 years - that is, in round terms, the bricks and mortar value.

19. Where a leaseholder has not enfranchised and the lease has been extended for 50 years, the landlord will have the right at any time during the extension to obtain possession if he shows that he genuinely intends to redevelop the property on paying compensation to the leaseholder equal to the value of the leasehold interest as it then exists.
20. Any dispute about the freeholder's rights will be decided by a judicial tribunal.

Covenants on Enfranchisement

21. Most of the covenants under the existing lease concern the relations between the landlord and leaseholder and will automatically and rightly disappear when the lease is enfranchised. But where there is more than one leasehold property in the same freehold ownership it is common to provide by way of leasehold covenants for matters of mutual advantage as between the leaseholders themselves affecting essential services and amenity. Neither the leaseholder who enfranchises nor his neighbour will want to lose these mutual advantages; and the Bill will ensure that, where they are important, they can in one way or another be preserved.

Estate Management

22. There are some comprehensively managed leasehold estates where enlightened management contributes greatly to the well-being of the residents by maintaining the character of the estate. It would not be fair to deny to leaseholders on such estates the right of enfranchisement, but it would be equally unfair to other residents on the estate if the exercise of this right prevented the benefits of comprehensive management from being any longer effective. The Government propose that, if the estate is recognised by the appropriate Minister as a well managed estate, enfranchisement will be subject to an agreed scheme for continued estate management, with provision for reference to arbitration in the event of disagreement.

Chain of Leases

23. The qualified leaseholder will not always hold his lease direct from the freeholder. He may sometimes be at the end of a chain of intermediate leases. He will be empowered to enfranchise by extinguishing all the superior interests and
there will be provision for the apportionment of the price of enfranchisement among the owners of these different interests. If the leaseholder does not enfranchise but extends his lease for 50 years, then the intermediate interests will disappear as the intermediate leases expire and then the leaseholder will hold his extended lease direct from the freeholder.

Summary

24. The Government thus intends to achieve a just and lasting solution of the leasehold problem by clearly defining the proper interests of the landowner and the leaseholder living in his own home; by ending the basic defect of the system that the dwelling provided and maintained by the leaseholder or his predecessors in title passes to the landowner without compensation before the end of its useful life; and by giving the leaseholder the right to become on fair terms the owner of his home.
18th February, 1966

CABINET

LOCAL GOVERNMENT FINANCE - ENGLAND AND WALES: DRAFT WHITE PAPER

Note by the Minister of Housing and Local Government

At meetings last September (C.C.(65) 46th Conclusions, Minute 1) and in January (C.C.(66) 2nd Conclusions, Minute 2 and C.C.(66) 4th Conclusions, Minute 3) the Cabinet approved proposals for changes in the system of Exchequer grants to local authorities designed to keep down the growth of rates.

2. I now submit for my colleagues' approval a draft of a White Paper summarising the conclusions which have emerged from our consideration of local government finance and outlining our proposals for legislation.

R.H.S.C.

Ministry of Housing and Local Government, S.W.1.

18th February, 1966
The problem

1. In 1938/39 the expenditure on revenue account of local authorities in England and Wales came to less than £393 million. At the end of the war - in 1945/46 - the total was £540 million; in 1963/64 it approached £2,400 million and this year, 1965/66, it may be somewhere near £2,900 million. It is this dramatic and continuing rise in local expenditure which lies at the root of the problem of how to finance local government.

2. About a fifth of this expenditure is covered by rents and various local charges; these produced £475 million in 1963/64. The remainder - not so far short of £2,000 million in 1963/64 - is financed from two sources, rates and Exchequer grants. In recent years grants have met rather more than one-half of this expenditure - a higher proportion than before the war - but even so the amount raised in rates rose from £191 million in 1938/39 to £923 million in 1963/64 and an estimated £1,132 million during the current year.

3. Local authorities are responsible for a wide range of services vital to the community. They include public and personal health; housing and re-development; education, welfare and child care; police and fire; land planning and transportation; provision for recreation. Few people would argue that the scope of these services should be reduced; on the contrary the demand is for wider-ranging services and for higher standards. Even to maintain existing standards would mean steadily rising expenditure as the number of those to be cared for grows, and wages and salaries and other costs rise. To provide better services required continuous development and ever-increasing staff, and these have to be paid for.
4. Since 1956/57 the amount collected in rates has increased by between 9% and 10% per annum - much faster than the national income - and there is every indication that this process will continue or even accelerate. This year householders will be paying on average £36 8s. in rates, compared with £30 12s. in 1963/64; but as recently as 1956/57 they paid only £18 13s. Even so, after allowing for the rapidity of the rise, the sums involved are hardly large enough to be a major source of difficulty, if the liability were distributed on any sort of logical principles; the total collected in house rates is not much more than half the yield of the tobacco duty. But here, as in other fields, averages conceal more than they reveal; many householders pay a lot more than the average, and others a lot less, and those who pay most are by no means always those who can best afford to do so.

5. The fact is that rates are a crude tax and were never designed to carry the strain now placed upon them; defects which were tolerated so long as the level of taxation remained low become progressively less tolerable as the load increases. Under modern conditions the value of a man's fixed property is no measure of his capacity to pay. Housing is a necessity, and as with other necessities the poor spend proportionately more on it than the rich. Consequently rates, which are a tax on housing, are a tax which falls most heavily on those with least capacity to bear them. The Report of the Allen Committee showed that while on average rates took only 2.9% of disposable household income - income after deduction of income tax, surtax and national insurance contributions - the proportion was 8.2% for households with less than £6 a week and 6.2% for those with more than £6 but less than £10 a week. At the same time many who could afford to pay something make no contribution at all; there are nearly 23 million members of the working population, all of whom benefit from local services; but only 14·5 million domestic rate-payers and nearly 3·8 million of those are over retirement age. This might not matter if rates were only one among a number of local revenues; but they are to all intents and purposes the only tax at the disposal of local authorities.
6. In addition to being regressive, rates have other weaknesses. The basis of assessment is difficult and little understood; the rent which a hypothetical tenant might be expected to pay in a free market has an air of unreality about it in a world where an increasing proportion of houses are owner-occupied and most of the remainder let at regulated or subsidised rents. Types of property which are never let, such as public utilities, hospitals and universities, have to be assessed by the use of devious formulae in which no great confidence can be placed. Moreover rates are lacking in natural buoyancy; the yield of income tax or purchase tax automatically grows as incomes or sales increase, but rating assessments do not adjust themselves to increasing values and can only be brought up to date at intervals by a cumbersome process of revaluation which makes heavy demands on scarce professional staff. Between revaluations the money needed to meet rising costs and to expand services can only be found by continually increasing the rate in the £ at which rates are levied. And when revaluation does take place the changes in the distribution of the rate burden resulting from the correction of accumulated distortions cause a resentment which would probably not have occurred if the process of adjustment had been continuous.

7. A tax so difficult to justify could not have survived as it has without possessing practical advantages. Rates are cheap to collect once the assessments have been made; they cannot be evaded; and they are undeniably local in character. But the defects of the system are so serious that the Government are convinced that rates in their present form cannot continue for long as the main source of local revenue, if we are to have a thriving and independent local government. Rates are already a burden to many, in particular to those with small incomes and those who for one reason or another spend a large proportion of their income on housing, as many retired people do. There is an urgent
need to bring relief to those who are already hard pressed and to prevent rates continuing to grow at a rate which will make them an intolerable burden to an increasing section of the community.

8. The Government have made a careful study of possible alternative sources of local revenue with the object of substituting for rates as we know them a new and fairer system of local taxation. But they find themselves driven to the conclusion that within the present structure of local government there is no prospect of finding a substitute for rates as the main source of local revenues, or even of supplementing them on a useful scale. Rates lend themselves to collection by a multiplicity of authorities, because there is no doubt as to the geographical location of the wealth being taxed. But consideration of other possible sources of revenue, be they taxes on income or consumption or on leisure activities such as amusements or betting, continually runs up against the fact that present local authority areas do not make satisfactory taxation units. This is not only a matter of size, but also of balance. Some areas are predominantly residential or industrial or rural, while others are important commercial centres; people may live in one area and work in another and shop in a third. In a country as heavily populated as this local authority areas can never be self-contained, but larger areas would possess a better balance between different types of development and activity, while a reduction in the number of authorities would greatly ease the administrative problems connected with the collection of possible taxes.

9. The outcome of the Government's review of local government finance so far therefore reinforces the conclusion to which they have come on other grounds that there is an urgent need for a comprehensive review of local government. Plans to set up a Royal Commission for this purpose were announced in Parliament on Thursday 10th February. The need to produce financially strong
authorities will clearly be one of the considerations which the
Commission will take into account, and the new structure which
emerges from their deliberations should provide a more promising
context for further study of the problems of local government
finance.

10. Against this background it would be a mistake to introduce a
fundamental reshaping of the grants system such as had previously
been intended. The need now is to take such steps as may moderate
the harshness of rates over the next few years without prejudicing
the outcome of the wider review, to prop up the present system
rather than radically to reshape it. The Government have therefore
re-examined the possibilities in the light of this short-term
objective.

11. There are three directions in which relief to the ratepayer
might be sought - (i) by reducing local expenditure, or at least
slowing its growth; (ii) by changes in the rating system; and
(iii) by increasing the proportion of local expenditure met from
the Exchequer. Or some combination of these might be tried.

1. Reducing expenditure

12. Local expenditure can only be reduced significantly either
by cutting services or by transferring the responsibility for
particular services from local to central government. (The
suggestion sometimes made that the Exchequer should finance
particular items of expenditure while leaving control locally
does not represent a real third course, for divided responsibility
of this sort will not work.) The Government are convinced that the
need is not to lower present standards of service, but to raise
them; and they emphatically reject the idea that the scope of
local government should be trimmed to fit its existing financial
resources. As regards proposals for the transfer of services
their view is that whether a particular service should be provided
centrally or locally should be decided by asking how it may best
be provided, and applying this test they are satisfied that there
is little room for such transfers.
(ii) Changes in rating

13. For changes in the rating system to be of value in the present situation they must be such as can be put into effect quickly. Irrespective of merits, this effectively rules out the two major changes which have been proposed, rating on the basis of capital values and rating of site values, both of which would involve a complete revaluation on new principles. Because of the shortage of valuers and the increasing commitments of the Valuation Office it is not even possible, as has already been announced, to complete a revaluation on the conventional basis before 1973.

14. The Rating Bill now before Parliament is designed to provide rate rebates for domestic ratepayers of limited means and to give all domestic ratepayers the right to pay their rates by monthly instalments if they wish: this will reduce the burden of rates on the poor and help the many who find it difficult to pay substantial sums every six months. In the Local Government Finance Bill, to be introduced shortly, the Government propose further to provide for the payment of half rates on properties which remain unoccupied for more than three months. That properties should remain empty for long periods in conditions of scarcity is an affront to all right-thinking people. Making rates payable on empty property should reduce the present scandalous waste of accommodation, even though it is unlikely to produce much by way of revenue.

(iii) Exchequer grants

15. In the short term increasing the proportion of local expenditure met from the Exchequer offers the main hope of reducing the burden of rates and the Government have therefore given particular attention to this part of the field. At present Exchequer grants meet rather more than half of the expenditure financed from rates and grants, but this proportion is the result of historical accident rather than any considered approach to the needs of local government.
The assistance which local authorities receive falls under three heads: specific grants (totalling £237 million in 1963/64), the general grant (£587 million in 1963/64) and rate-deficiency grant (£146 million in 1963/64). Of these the rate-deficiency grant represents a conscious effort, by no means wholly successful, to compensate for differences in resources between local authorities by making good to those whose rate yield per head of population is below the national average the difference between the local yield and the average. The purpose of specific grants is to aid or promote the development of particular services; and the general grant, which is the main vehicle of Exchequer assistance to local authorities, is merely the successor to a number of grants in aid of particular services and the amount of the grant is settled by reference to expenditure on those services (principally education, fire, local health and welfare and child care).

In the Government's view the need now is not so much to encourage or assist the development of particular services as to ensure that the total cost of all services does not place an impossible burden on ratepayers and in particular on householders. The best way of securing this is not by a once for all transfer from rates to taxes, which would mean a rate holiday followed by a resumption of the previous steeply rising trend, but by a progressive increase in the proportion of expenditure met from grants.

The Government's proposals

With this in mind the Government propose that for 1967/68 and subsequent years a new system should operate under which the first step would be to determine the total assistance to be given from the Exchequer to local government. Local authorities would be asked to submit estimates of expenditure for the following two years and these would be examined in the light of
the need to develop services and of the Government's declared aim of containing the growth of public expenditure. In this way an estimate of total expenditure would be built up and a grant total would be derived from this by applying a percentage rising steadily from year to year. The aim would be to keep the average increase in rate poundages broadly in line with the growth of the economy, as measured by gross domestic product.

19. The result would be to increase the total of Exchequer grants to local authorities in England and Wales in 1967/68 by something approaching £30 million over and above what would have been payable if the present system had continued; the increase would be approximately £60 million in the second year, £90 million in the third, and so on. The annual increase would be equal to about one quarter of the additional sum which local authorities will on present trends have to find; and the amount needing to be raised in rates would be reduced by the same amount.

20. The Government propose to devote the great part of this additional grant to reducing the rates of householders who, unlike commercial and industrial undertakings, cannot claim their rates as an expense for tax purposes. Assuming that the total collected in rates continues to grow by about 10% per annum, the result on average should be that the increase in rates which householders are called on to bear in 1967/68 and subsequent years will be only about one-half of what it otherwise would have been. Averages are, of course, misleading: in some areas the increase which householders are left to face may be very small indeed; but even where the growth of rates is above average householders should benefit to the extent of about a 3d. rate in the first year, twice that in the second and so on.

21. The remainder of the grant total will be distributed partly in the form of specific grants related to the expenditure of individual local authorities and partly by way of a new grant in
aid of the rates generally. Specific grants will be retained for services where the incidence of expenditure is very uneven; coast protection is an extreme example. Now grants of this type will be introduced to assist urban redevelopment, the reclamation of derelict land and the acquisition of public open space. The present police grant will also be retained, in view of the special responsibility of the Secretary of State for Home Affairs in this field.

22. The new rate support grant will, however, be the main channel of Exchequer aid to local government; it is expected to distribute at least 80% of the total grant. This grant will replace the present general and rate-deficiency grants and some existing specific grants; the larger part of it will be distributed to the major authorities on the basis of demographic and environmental factors, of which the most important will be population and the numbers of pupils and students at different stages of education; the remainder will be distributed to all authorities with below average rate resources on lines similar to those of the present rate-deficiency grant.

23. These proposals are not presented as a long-term solution; they would be quite inadequate as such. Their purpose is to reduce the burden of rates and produce a fairer distribution of Exchequer assistance among local authorities, and so to shore up the shaky edifice of local government finance until there has been time to re-examine the whole position in the light of whatever conclusions emerge from the work of the Royal Commission on Local Government.
EXCHEQUER SUPPORT FOR A STATUTORY SCHEME OF MINIMUM PRICES FOR WHITE FISH

Memorandum by the Secretary of State for Scotland and the Minister of Agriculture, Fisheries and Food

The White Fish Authority wish to use their powers under legislation of the post-war Labour Government to promote a statutory scheme for fixing minimum first-hand prices for white fish and have asked for an Exchequer contribution to help finance the scheme.

2. The Ministerial Committee on Economic Development have considered the Authority's proposals and at their meeting on 20th December last agreed that we should be ready in principle to consider favourably the promotion of a statutory scheme. They invited us, however, to arrange interdepartmental discussion on the international implications and the possibility of introducing a scheme without an Exchequer contribution.

3. As regards the international implications it is proposed to consult the Danish and Norwegian Governments, who are mainly concerned in advance of any public announcement. If they should raise serious objections these would be referred to Ministers and we need not anticipate them now. The details of the scheme would also be discussed in due course in any case with the countries concerned. This procedure has been agreed by officials.

4. On an Exchequer contribution, no agreement has been reached and we have to put this matter to our colleagues.

5. We seek an Exchequer contribution because a scheme will not get off the ground without one and we are confident we should get good value for the relatively small sum needed. We believe we could get by with meeting half the cost of the scheme up to a limit of £0.5 million a year for a period of five years. There would undoubtedly be a partial offset in savings on subsidy.

6. A scheme will not get off the ground without the general support of all sections of fishermen from the larger trawler companies to the smaller inshore fishermen. Without some Exchequer contribution this will not be forthcoming. The reason is that different sections of the industry will be unable to judge in advance how they will fare and will be afraid that others will gain at their expense. And a scheme cannot be efficiently administered without the general support of the fishermen. We think that in the long run the fishermen will accept that the cost of a scheme to benefit their returns should be met by them; but in the short term the benefits will be speculative and may be uneven, and an Exchequer contribution is necessary.
7. The scheme will give good value in three ways. Firstly, it will serve as a check against the distributors who can play the market with a very perishable commodity when there are heavy catches. Secondly, it will be the means of introducing quality control to the benefit of consumers. Thirdly, without a minimum price scheme there can be no doubt that we shall have to find over the years much more in subsidy, now on a reducing scale, than we are doing at present.

8. If we cannot promise an Exchequer contribution the industry will be left to rely on its own unsatisfactory private minimum price arrangements. This would be unfortunate because they have many unsatisfactory features and are not under public control. The principal private schemes are due for examination by the Restrictive Practices Court this summer. If they should not survive the industry would face great instability and the fishermen might well be driven to curtail their catches as a precaution against over-supply and low prices. The result would be under-supply and high prices and more imports would come in. The big fishing companies would weather the storm better than small concerns and working fishermen. But the balance of payments would suffer and Exchequer loans of some £18 million to the fishermen on their vessels would be at risk. And there would be great pressure for more subsidy.

9. We pledged ourselves in the last Queen's Speech to promote the economic development of the industry. We believe the minimum price scheme will be taken as the test of our intentions and that an Exchequer contribution of the order we propose is well justified.

Recommendation

10. We recommend accordingly that subject in due course to the approval of a statutory scheme of minimum prices the White Fish Authority should be promised an Exchequer contribution of half its cost for the first five years subject to a limit of £0.5 million a year.

W. R.

F. P.

Scottish Office, S. W. 1.

21st February, 1966
22nd February, 1966

CABINET

LEISURE IN THE COUNTRYSIDE, ENGLAND AND WALES:
DRAFT WHITE PAPER

Note by the Minister of Land and Natural Resources

I attach, for the consideration of the Cabinet, the draft of a White Paper on Leisure in the Countryside, which I propose, if the Cabinet agree, to publish on 23rd February.

2. I have not yet received the agreement of the Chancellor of the Exchequer to the proposal that grants to local authorities in this field should be at a level of 75 per cent. I think this level is the right one, bearing in mind in particular that the projects in question will serve the needs of visitors more than they will serve the ratepayers, and that this is the level of existing grants; and it would be difficult for the treatment of this small and specialised expenditure to be used as an argument in other fields.

F. T. W.

Ministry of Land and Natural Resources, S. W. 1.

If present trends continue, by the end of the century there will be some 19 million more people in England and Wales than at present. Siting new houses, factories, roads and public utilities for their needs and renewing what is already or will become obsolete will be a formidable task for the machinery of planning. The problem is not primarily one of finding land for new buildings; the task is to site them and design them so that cities will in themselves be pleasant places to live in and when town-dwellers want to spend their leisure in the countryside they can reach it quickly and in comfort.

We have only limited freedom of action in distributing our population. Most of the extra 19 million people will be the growth of families in the existing large centres of population, such as South Lancashire, the West Riding and London, where congestion is already serious. Nor can the facts of geography be ignored, though they are less constricting than they once were, when the location of industry and commerce is being planned: our towns cannot all be resited, nor all our railways and roads rebuilt. No planning of the distribution of the population can prevent there being several great focal points from which people will visit the countryside; and no road programme that the country can afford will prevent disagreeable congestion if most people have to travel a long distance to seek relaxation in the countryside.

The growth of the urban population, and the expansion of industry, must be reconciled with the need for greater home food production and increased efficiency in farming, which are
equally important in the National Plan. Land capable of high agricultural return is a scarce resource, and must not be wasted by lack of thought and planning. Equally, the task of the farmers in producing food more efficiently from less land must not be made more difficult by failure to tackle the problem caused by the increasing numbers of visitors to the countryside.

4. The Government are determined to seek within the limitations/the best possible distribution and the best siting and layout of towns and cities. They believe firmly in the development of a national plan of location. This should be neither simply the sum of local or regional plans, nor a comprehensive and detailed plan imposed from the centre. It must be a framework against which local and regional proposals are worked out and considered. This framework is being evolved.

5. Given that townspeople ought to be able to spend their leisure in the country if they want to, that they will have more leisure and that in future they will be able to buy cars and boats and otherwise spend money on their week-ends and holidays; the problem is to enable them to enjoy this leisure without harm to those who live and work in the country, and without spoiling what they go to the countryside to seek. The present proposals of the Government are concerned with this problem.

6. The proposals take as their base the National Parks and Access to the Countryside Act of 1949. This was passed with wide support from all those who value the countryside. It has led to the creation of ten National Parks and of new long-distance footpaths, and to access agreements opening up thousands of acres of country previously barred to all but a few. A valuable national asset has been created, and the present proposals are intended to prevent its being spoilt.
7. But the developments of the last sixteen years have been more rapid, and on a greater scale, than could have been foreseen in 1949, when the country was only beginning to recover from the war. There is now more money, more leisure, and above all there are more cars. If, in these new conditions, the original intentions of the National Parks and Access to the Countryside Act 1949 are to be fulfilled, and if the National Parks are to retain their distinctive character, then it is essential to make new provision for the enjoyment of the countryside elsewhere both to meet public demand and to relieve pressure on remote or outstandingly beautiful places.

ADMINISTRATION

8. The National Parks Commission were given two main functions: to preserve and enhance natural beauty, particularly in the areas designated as National Parks or Areas of Outstanding Natural Beauty; and to encourage the provision of facilities for the enjoyment of the National Parks. The Commission have discharged those functions patiently and well, and the nation owes the Commissioners a debt which the Government gladly acknowledge. But the time has come to enlarge the Commission's scope so that their functions will include the encouragement of opportunities for the general enjoyment of the countryside. The Government therefore propose that the Commission shall be reconstituted and renamed the Countryside Commission. The care devoted to the National Parks must certainly not be reduced; what the Government propose is an addition to existing functions, not their dilution.

9. The wider scope of the reconstituted Commission will need some strengthening of the staff. Additions have already been
made to cope with increasing work under the 1949 Act, and other staff are being recruited to start planning for what is now proposed. Preparatory research is also being done by the Ministry of Land and Natural Resources, with help from universities.

10. The Commission will work under the general guidance of the Minister of Land and Natural Resources and the Secretary of State for Wales, who will settle broad lines of policy and the overall rate of expenditure.

11. It will be the Commission's responsibility to advise the Government on the protection of the countryside in the light of growing demands for the enjoyment of leisure there, and of pressure from development of all kinds. It must be the aim to see that a fair balance is struck between the needs of those who live and work in the country and the needs of visitors. The divergent interests of those who visit the countryside simply for relaxation or active recreation, and of those whose concern is primarily with the conservation or study of its natural or man-made features, will also need to be reconciled. A major task will be to stimulate and co-ordinate education in the need to conserve the unique features of the countryside. The Commission will act as a source of, and a clearing house for, ideas and techniques, and will provide effective liaison between the bodies concerned with meeting the demand for facilities. They will undertake, or arrange for, research into countryside problems, and will assess priorities. Above all, they will support local initiative with advice and encouragement, and stimulation where need be.
Relations with the Sports Council

12. The creation of the Countryside Commission will in no way diminish the importance of the Sports Council, which will remain responsible for advising the Government on the development of amateur sport and physical recreation services. The Commission's concern, in this field, will be primarily with enjoyment of the opportunities which the countryside gives for what is described in the 1949 Act as "open-air recreation" - a phrase which the National Parks Commission have rightly interpreted in its broadest and least specialised sense. Their interest will be complementary to the Sports Council's primary interest in physical recreation and outdoor activities in the more specialised sense. There will need to be close co-operation between the Commission, the Sports Council and the regional sports councils, and arrangements will be made to that end.

National Parks

13. No immediate major change is proposed in the administrative arrangements within the National Parks. The Government have, however, been impressed with the weight of opinion in favour of joint planning boards for those Parks which cover more than one county, and they hope that the planning authorities concerned will consider very seriously the possibility of a change. The Government will consider whether it would be desirable to exercise their power to revoke existing arrangements if further experience shows this to be required.

FINANCE

14. Under the 1949 Act specific Exchequer grant at the rate of 75% can be paid towards the costs of what is done by the local planning authorities for preserving or enhancing natural
natural beauty and for its enjoyment in the National Parks and the Areas of Outstanding Natural Beauty. These arrangements will be extended to what is proposed in this paper for the countryside generally.

15. It is also proposed that Exchequer grant, at the rate of 75%, should be payable towards the additional administrative expenses of National Park planning authorities involved in the creation of new facilities or the improvement of the landscape.

THE MEASURES PROPOSED

16. Whatever changes may come in leisure habits, and however much our towns may be made more fit for living, a very large number of people will probably continue to spend a large part of their free time in their motor cars, visiting the countryside and the coast. And the number of cars which is already 9 million is expected to reach 26 million by 1980.

17. This movement away from the towns in leisure time is constantly growing; and it is taking place in mid-week as well as week-ends, and in spring, autumn and winter as well as summer. No one would want to halt the process. And the Government believe that, given the will and the means, the countryside need not be spoilt if the area of choice before the town-dweller is enlarged. The family who want to spend a day or a week-end away from towns can at present go to the coast; to the National Parks and similar areas; or to a limited number of recognised "beauty spots" or open spaces or country houses and gardens open to the public. These may or may not be at a convenient distance. They will probably find that driving there is slow
and frustrating, and when they get there that too many others have had the same idea. Other areas might do just as well, and might be easier to reach. But at present there is no positive reason for going there, and there may be drawbacks: there is nowhere off the road to park the car, nowhere to picnic or ramble and nowhere for the children to paddle or play games.

Country Parks

18. The Government accordingly propose that the area of choice should be enlarged by the provision of what might be called "Country Parks". These would serve three purposes. They would make it easier for town-dwellers to enjoy their leisure in the open, without travelling too far and adding to congestion on the roads; they would ease the pressure on the more remote and solitary places; and they would reduce the risk of damage to the countryside - aesthetic as well as physical - which often comes about when people simply settle down for an hour or a day where it suits them, somewhere "in the country" - to the inconvenience and indeed expense of the countryman who lives and works there.

19. Some areas which serve these purposes have existed for many years, and more have been created in the recent past, as opportunity offered, notably by the National Trust. The Government propose that more should be created, as rapidly as the need for them appears and the country's economic situation permits.

20. The Government believe that a wide discretion should be given to the Countryside Commission and the authorities planning and creating Country Parks. They would vary widely in size and in the type of facility provided. Some
would be quite small; others would extend to several hundreds of acres. Some would be quite simple, with only the minimum basic works, while in others there might be a restaurant, a boating lake or paddling pool and perhaps some ornamental water. In some of the larger parks it would clearly be right to allot space for organised sports, as well as space for simple unorganised games. In such cases, the local authorities would find it desirable to work in close co-operation with the regional sports councils and other interests concerned with sport.

21. The main instrument for the creation of Country Parks would, it is proposed, be the County Councils. But, as visitors could be expected to come from many places, there would need to be arrangements by which the County Council in whose area a Park lies could collaborate with other authorities. County and County Borough Councils, including the Greater London Council, would be given power to contribute to the cost of establishing Country Parks outside their own administrative boundaries, for the benefit of their own ratepayers. Informal arrangements would be sufficient in some cases; in others, a formal consortium of local authorities might be desirable. The good offices of the Countryside Commission would be available if required in the promotion of such joint schemes. It will also be provided that, exceptionally, a County Borough or the Greater London Council may take the initiative in establishing a Country Park outside their own area, with the agreement of the host authority.

22. The County Councils would be required, in planning Country Parks, to consult the County District Councils which may be concerned, and it will be provided that, exceptionally, a County District Council may itself create a Country Park with the agreement of the County Council.
23. The local authorities administering Country Parks would usually have to own the land or hold a lease of it, and they will be given powers of acquisition accordingly, including purchase by compulsion if the appropriate Minister agrees. But it will not always be necessary that the authority should own the land or hold a tenancy of it. Where, for example, land is already used for purposes comparable to those which the Country Parks are intended to serve, but the owner is unable to bear the cost of necessary additional works, the authority would be empowered to contribute to their cost. In other cases, an owner might prefer, instead of selling or leasing the land required, to enter into arrangements with the authorities for its management, the local authority bearing or contributing to the cost of capital works. All arrangements of this kind would have to be subject to adequate safeguards for public funds.

24. To be effective, planning of the location and design of Country Parks, indeed all planning for the use of the countryside for leisure, will need to be undertaken in the light of county development plans and the regional plans of the Economic Planning Councils, and will involve extensive consultation with the Countryside Commission and for example between planning and highway authorities and between local government and the Ministry of Agriculture, Fisheries and Food and other Government departments concerned with rural development. There will also need to be consultation with regional sports councils where sporting activities are involved.

25. Grant will be payable on approved expenditure on the acquisition of land for Country Parks; the creation of the necessary basic works such as landscaping, car parks, lavatories and roads;
litter removal; warden services where required; and major items of renewal and repair. In assessing the amount of grant, account will be taken of any revenue which could reasonably be expected. Approved contributions by local authorities towards capital expenditure on the purchase of land and on works in Parks outside their own administrative areas will qualify for grant; and so will approved costs incurred by local authorities in respect of works carried out on land which is used as a Country Park but is not in public ownership.

26. Discussions with the County Councils Association have shown that their members will use widely and imaginatively this means of enlarging the area of choice open to visitors to the countryside. A number of Councils have already initiated comparable schemes. But other means will be needed as well.

Picnic Places

27. There will be places in the countryside and on the coast where a Country Park would not be justified, but something better than a lay-by is needed by the family who want to stop for a few hours, perhaps to picnic, or to explore the footpaths, or simply to sit and enjoy the view and the fresh air. Accordingly, local authorities will be empowered to create such places where they are most needed with an acre or so of land, space for parking cars, lavatories and litter bins. Exchequer grant would be payable.

Access to Water

28. Reservoirs and Gathering Grounds. Although many water undertakers have found it possible to allow their reservoirs to be widely used for recreation, access to many reservoirs is still restricted and sometimes forbidden without sufficient
reason. Subject to proper safety measures, there is no reason to deny public access to reservoirs used solely for river regulation or compensation. Public access to reservoirs from which water is taken directly into public supply involves greater hazards, and the first essential is the safety of the public water supply. Methods have been developed by which the hazard from many recreational activities can be eliminated.

29. The Government believe that there are reservoirs of both kinds where, with suitable planning management and supervision, access for such pursuits as angling, bird-watching and some forms of boating may be permitted.

30. The Minister of Land and Natural Resources has had some useful discussions with the British Waterworks Association, and a joint circular will shortly be issued by the Ministers concerned asking the bodies which control reservoirs to overhaul their present rules governing public access to reservoirs and gathering grounds, and to submit before the end of the year a statement of their future arrangements. There are ways in which local authorities can help: for example, by providing accommodation for clubs, lavatories, car parks and equipment for water activities.

31. New reservoirs should present no problem. Arrangements usually are and certainly should be made at the planning stage so that the full recreational possibilities can be taken into account and the appropriate facilities - such as access roads and car parks, fish hatcheries and fish passes, jetties and sewerage - can be included in the plans.

32. Rivers and Canals. The nation possesses a considerable potential for all kinds of recreation in the extensive network of inland waterways in England and Wales - rivers, canals and in some places, such as the Fens, the great drainage channels.
33. For many leisure pursuits, such as walking and picnicking, the prime need is a waterside path kept in good repair. For various reasons this is often not available, and the Government are examining with the organisations involved what legislative or other measures should be taken to resolve the conflicts of interest which often are at the root of the difficulties.

34. One such conflict of interest is the disturbance of fish and fishermen by those who find their pleasure in boating or swimming. It is essentially a matter to be resolved locally, so far as possible by consultation and give-and-take, leading to the framing of byelaws. Another problem is the quality of sewage and factory effluent in waterways. The machinery of control exists in the powers of river authorities, and in spite of increases in population and industry waterways are becoming cleaner, not dirtier. Improvement of standards is primarily a matter of priorities in local expenditure. The existence of well-run angling societies and other local clubs has been of advantage in dealing with these problems.

35. Some waterways, like the Thames and the Norfolk Broads, are used by craft of all kinds in summer, and are sometimes overcrowded; but many, perhaps most, other stretches of water are little used for most of the time. The British Waterways Board's receipts for pleasure boat licences are in no way commensurate with the cost of keeping navigable for powered craft the greater part of their network which is no longer of any significance for commercial transport. The revenue which most river authorities obtain from boating is similarly very small. There are various things that affect the rate at which demand grows. Among them are the availability of access points from which people can launch boats after bringing them to the water by car; the number and distribution of
Old concerns offering "boats for hire; the availability of basins and moorings; the ease with which rights of passage can be obtained; and freedom from obstructions and pollution. Although the British Waterways Board have made strenuous efforts to promote the use of their waterways for boating, and several societies are very active in the field, there are still some things that can be done to bring opportunities to the notice of potential users. In short, there is a task of co-ordination to be performed in bringing about greater use of the opportunities that exist.

36. Financially, the aim must be to do everything possible to increase revenue and keep costs down; but some continued subsidisation will be necessary if facilities for boating are to be provided. Experience will show, as time goes on, what opportunities for increasing use, and so increasing revenues, do exist, and plans must be flexible enough to be adjusted accordingly. It will be for those who use waterways for recreation to show what facilities they wish to support.

37. The Government will seek to evolve, in conjunction with the river authorities, public bodies and others concerned, and with appropriate advice, comprehensive plans for developing the use for recreation of the country's waterways, natural and artificial. There will need to be studies of a broad kind, covering the size, type, and location of future demands and the factors determining them, and the physical assets that exist; and detailed studies of appropriate treatment for individual stretches of water, in the light of potential demands of all kinds and costs. Much valuable information is now available for the first time in the British Waterways Board's report, "The Facts about the Waterways." Where boating is concerned, it will be necessary to consider the different
standards to be aimed at for particular stretches, varying from
the standard required by large pleasure cruisers to what the
British Waterways Board refer to as navigability as a tour de
force. Throughout, full consideration will be given to the
needs of anglers who on some rivers already have a clear
priority.

38. There are many people in this country who are knowledg­
able about, and care greatly about, the use of rivers and canals
for recreation. There must clearly be opportunities for these
talents and energies to play their part in the future of the
waterways.

39. **Gravel Pits.** Excellent opportunities for the creation
of recreational facilities are provided on a substantial scale
by disused gravel pits. In south-east England especially
these are mostly wet workings. The Government intend to
examine, with the local authorities and the industrial interests
concerned, the possibility of creating well-landscaped lagoons
in many places, especially near to towns, for the enjoyment of
sailing and other water sports.

40. **Natural Lakes.** There is scope for greater use of
natural lakes for recreation, and much can be done to meet the
growing demand. But the value of some lakes lies in their
beauty, which would be seriously damaged by some forms of water
sport, though it need not be harmed by others. The reconcil­
iation of the claims of amenity and recreation will call for
tact and understanding from all the interests concerned.

41. **Coastal Waters.** The great increase in the popularity
of sailing calls also for the provision on the coast of more
yacht harbours, moorings, access and launching points for those
who wish to sail in the estuaries and on the sea. Much is
being done in this direction by private enterprise and by clubs,
and some local authorities are working actively with voluntary
associations to provide facilities of this kind. The importance
of good design and location in projects of this kind cannot be
overstressed. The Government welcome this local initiative
in tackling the problem which arises because the facilities
which were enough when yachting was a pastime of the comfortably
calm are quite inadequate now that yachtsmen and dinghy sailors
are numbered in thousands.

Access to Open Country

42. The National Parks and Access to the Countryside Act of
1949 provided that all local planning authorities should consider
what action they should take by access agreements or orders or
by purchase to secure public access to open country, that is
"land consisting wholly or predominantly of mountain, moor,
heath, down, cliff or foreshore". The authorities were required,
when this had been done to publish maps of the open country in
their area or where there was no open country, a certificate to
that effect.

43. In view of the change in circumstances since the reviews
were completed, the Government propose to ask all local planning
authorities to institute a fresh review and to send to the
Countryside Commission, for transmission to the appropriate
Ministers, revised plans based on the vigorous use of all their
powers. In order to help them to put these plans into action,
expenditure on the purchase of land for access, on compensation
under access agreements or orders and on a warden service will
be eligible for grant throughout the countryside and not, as at
present, in the National Parks and Areas of Outstanding Natural
Beauty only.

44. Under the 1949 Act access to open country can be secured
by access agreement, but these agreements can be made only over
land which is itself open country as defined in the Act. This
limitation will be removed so that they may be made over any land which is needed to give access to open country. The power to make byelaws for the protection of access land and for the preservation of order, and to appoint wardens for the purpose, would be extended accordingly.

Footpaths and Bridleways

45. Progress in making the survey of footpaths and bridleways, which was required of County Councils under the 1949 Act, has been disappointing. In the sixteen years since its passage, only half the councils have published definitive maps. The Government have pressed the authorities concerned to make a special effort to complete the work without further delay.

46. It is clear that some amendments to the legislation, which is in some respects out-of-date, are required. For example, County Councils and the National Park planning authorities should be given concurrent powers to act as footpath creation authorities, without having first to apply to the Minister for a direction; and some simplification of the procedure for the creation, diversion and closure of footpaths is necessary in the interests both of users and of landowners and occupiers. The Government propose to introduce changes in the legislation accordingly.

47. But in the Government's view a more radical reform may well be needed, to provide a legislative framework which would permit the development of a system of footpaths and bridleways, some based on existing routes, but others newly created, which would be more suited to modern needs. Such a system might ideally consist of a carefully-planned network, providing attractive routes on foot or horseback between and around centres of interest which, being more regularly used,
could be more readily kept fit for use; while the routes which no longer serve any generally useful purpose could be allowed to disappear. The Government propose accordingly to consult further with the interests concerned, to see whether this idea is generally acceptable, and if so, what changes in the law, including perhaps the creation of new administrative machinery, would be desirable.

**Long-Distance Routes**

48. The Countryside Commission, like the National Parks Commission, will be responsible for proposing long-distance routes. They will be asked to give a high priority to this work and to ensure that the long interval between the designation of a route and its opening for use is reduced.

**Commons**

49. It would be premature to include in the proposed legislation the second stage of general legislation designed to secure the better use of common land - better use in increased productivity and in wider public access. But it is proposed that where a public right of access already exists over a common, or where such a right is granted in the future, the local authority should have power to acquire a limited area of the common, and to construct access roads, car parks and simple buildings and fences where appropriate, so that it can be used as a Country Park. This would enable the right of access to the common to be more effectively used. A simplified procedure will be introduced to enable the authority to obtain Ministerial agreement, after consideration of any local objections, to the acquisition of land and the creation of simple facilities for this purpose.
Camping and Caravan Sites

50. There is a need for more camping and caravan sites, to be used primarily as staging points by holidaymakers in transit. Where demand is heavy and extends through a long season, it is reasonable to assume that clubs or private persons will meet this need, since revenue could be expected to match expenditure. Where this is not the case and the result is that holidaymakers in transit are forced for lack of adequate sites to stay over-night in lay-bys or on the roadside or other unsuitable places, the local planning authority will be empowered and encouraged to provide well-designed and well-planned sites with the aid of grants.

Trees and Woodlands

51. Changes in agricultural practice and the continuing emphasis on increased efficiency in farming are together making for a striking change in the face of the countryside because of the loss of trees and hedgerows, particularly noticeable in lowland England, which for generations has characteristically been a country of small fields, scattered woods and hedgerows. Changes there must be, but the losses can be made good by new planting. Trees may also be used with good effect to screen obtrusive buildings and eyesores; and even a well-designed group of buildings can often be improved by judicious tree-planting. The Government will therefore ask local authorities to embark on an extensive programme of tree planting but in small woods, clumps and rows in the countryside, not in the main in large woodlands, and to manage them themselves or arrange for their management by other public authorities or landowners. It might be convenient in suitable cases to enter into agreements with landowners for the planting and management of trees on their own land.
planning authorities already have power to acquire land and plant trees on it, but an Exchequer grant is payable only in the National Parks and Areas of Outstanding Natural Beauty. In future, approved expenditure will be eligible for grant elsewhere in the countryside.

52. Although the felling of trees and hedgerows is often necessary if changes in agricultural practice or planned development are to proceed, not all fellings are justified by genuine economic or practical needs; and some trees or clumps of trees may have special value in the landscape which entitles them to special consideration. The Government therefore propose to ask local planning authorities to review, in consultation with the Forestry Commission, their arrangements for the making of Tree Preservation Orders, with a view to identifying those trees and woodlands which are of particular importance as features of the landscape and which ought not to be felled without the consent of the planning authority and before arrangements can be made for their replacement. The Government have been reviewing the procedure for the making of Tree Preservation Orders and its relation to the felling licence provisions of the Forestry Act 1951, and will propose any necessary legislative changes.

53. Problems will continue to arise with woodlands which have hitherto been mainly of broad-leaved trees like oak, beech, ash and sycamore and which are being converted to conifers, usually with the aid of grants from the Forestry Commission. Over much of Britain a conifer wood can enhance the beauty of the countryside, but there are areas where a planning authority would be right to urge that at least some of the woodland should be planted with broad-leaved species.
It should be possible to reconcile the claims of commercial forestry and amenity; and the Forestry Commission will continue their practice of co-operating with the planning authorities and the woodland owners in working out acceptable solutions. Where a planning authority's minimum requirements are incompatible with management on a reasonable commercial basis, the Government propose that the owner should be empowered to require the purchase of the wood by the authority, who would be able to claim grant towards the purchase price.

54. Much of the planting by the Forestry Commission, particularly in the upland areas, will have to be of conifers. The Commission have shown for many years that they appreciate the need to reconcile the claims of amenity with efficient production; and it is the Government's policy that they should take account of the needs of amenity in the planting and management of their woods. The Commission are opening their forests to the public as freely as possible, and have provided caravan, camping and picnic sites, lay-bys and other facilities.

Eyesores

55. Much of the countryside is disfigured by structures such as huts, shacks, and dumps of abandoned cars and other unwanted material. It can be expensive to get rid of these eyesores, both because of the cost of removal and because compensation may have to be paid. But the problem has to be tackled. The Government propose, therefore, that the Countryside Commission and the local planning authorities should combine to work out a programme of action, covering some years, concentrating at first on removing the more obtrusive eyesores from the most attractive places. Approved expenditure by local planning authorities, including compensation under discontinuance orders, will be
eligible for grant aid. This proposal is separate from the Government's recently announced proposals for the rehabilitation of land which has been so damaged by industrial or other development as to be unusable without treatment.

56. Voluntary effort can be very useful here. The Civic Trust hopes to announce very shortly its campaign (for town as well as countryside) under which local bodies and organisations, civic societies and all others interested in the environment, will be encouraged to co-operate with the local authorities, largely by undertaking the work of physical removal or improvement. The Government will encourage local authorities to make full use of their powers to assist voluntary efforts of this kind by lending equipment and contributing to administrative expenses.

57. Too much of the coast has already been spoilt by badly sited development. Most of this took place before the introduction of planning control; but the Government intend to ensure that as much as possible of the coast is kept open and unspoilt in future. There must be reasonable facilities for public access and recreation by the sea, but they must not be allowed to spoil the amenities which people come to enjoy. A series of regional conferences with all the coastal planning authorities has been arranged so that a thorough examination can be made of the problems of the coast and the measures required to deal with them. These conferences will provide a firm foundation for future planning policy.
Meanwhile, the planning authorities have been asked to review their present policies as a matter of urgency and to define clearly the lengths of coast they propose to protect in future.
58. The Government have pledged their support for "Enterprise Neptune", the National Trust's appeal for £2 million to enable it to acquire further stretches of the coast, and have themselves contributed £½ million.

Regulation of Motor Traffic

59. Existing powers to regulate motor traffic have been found, in practice, to be inappropriate to the needs of National Parks and other designated areas. It is therefore proposed to take special powers to regulate traffic in National Parks, Areas of Outstanding Natural Beauty and, where necessary, in and on the approaches to Country Parks where some sorts of traffic might endanger the natural beauty of the area or impair its enjoyment by the public.

Byelaws

60. As the use of the countryside increases, so does the possibility of conflict between different activities. The Government are therefore examining whether the powers of local authorities to make byelaws over land and water need to be strengthened.

CONCLUSION

61. The essence of these proposals is to invite Parliament to give elected local bodies the powers and the financial help that they need to ensure that the resources of the countryside match the needs of the nation and to enlarge the scope of the National Parks Commission by creating a Countryside Commission to promote and co-ordinate action and to advise the Government on the measures needed for the full enjoyment of the countryside and the protection of its natural beauty.
62. The Government will introduce a Bill to give effect to their proposals. Meanwhile, reconnaissance, planning and research are needed both locally and nationally so that when legislation has been enacted work can begin on well thought out schemes without delay.
22nd February, 1966

CABINET

DECIMALISATION

Memorandum by the Chancellor of the Exchequer

The climate of opinion is moving on this subject and expectations of a Government decision have been stimulated by the introduction of decimalisation into Australia. The Confederation of British Industries (CBI) are about to write to me urging an early decision and the Association of British Chambers of Commerce have already done so.

2. The Halsbury Committee which reported in July, 1963, showed that the case for decimalisation is strong and it has been strengthened even more by our decision to go metric. The main benefits will accrue in the form of a saving of time in banks, shops, offices and schools. The saving will show up either in a reduction in the labour force or in greater ability by the same labour force to take on other work. It will simplify the teaching of arithmetic. The standardisation of text books and machines will also improve our export prospects.

3. The cost is likely to be large, probably of the order of £120 million of which possibly rather more than half (allowing for tax relief) would fall on the Exchequer, even if we decide that compensation as a general principle is unacceptable. Because many of the benefits are intangible it is not possible to put a precise figure on the actual savings, but there would be a good return in national cost/benefit terms.

4. The additional public sector expenditure involved, for which we should have to make provision at the next review in June, will be about £40 million. The cost would be spread over a number of years but would reach its peak in the year of the change-over.

5. There are three main issues to deal with: choice of unit, compensation and date of introduction.

Choice of Unit

6. After examining a very large number of possible systems the Halsbury Committee finally decided that the choice lay between a £-cent-½ cent and a 10s. decimal system, and in the intervening period no one has made out a strong case for any other system. In their Report, and especially in the minority Memorandum of Dissent, the arguments developed in South African, Australian and other...
enquiries in favour of the 10s. system are given full weight. The
chief advantages of the 10s. system are listed as being its simplicity,
its flexibility and convenience for money transactions of most values;
it's easy associability with our present system; the somewhat lower
cost of introducing it, the fact that it would be less likely to cause
price increases; and the fact that without the ½ cent it would be a pure
decimal system.

7. The majority by four votes to two recommended the adoption
of the £-cent-

cent system. They agreed that people would find it
easier to adapt themselves initially to a 10s.-cent than to a £-cent-
½ cent system for small transactions but thought this was only a
matter of degree. On the longer term considerations the majority
thought that the ½ cent, which spoils the symmetry of the system
would fall into disuse, perhaps in one generation. They concluded
that in view of the gradual decline in the value of money over the
centuries it would be "against the economic logic of history" to move
to a new major unit of only half the value of the present pound.
Looking only at domestic considerations the majority conclusion
was that the 10s. system presented lesser difficulties of adaptation
in the change-over period and avoided the inconvenience of a ½ cent,
but that the other advantages claimed for each system were relatively
unimportant.

8. This seems a fair assessment, except that the Committee may
have under-estimated the transitional convenience for larger trans-
actions of retaining the £, not only because of the records and
contracts that would have to be changed if it were dropped, but also
because it is the familiar measure of value and forms the background
to everyone's thinking about prices and incomes. In the narrative
memorandum which Mr. Holt, the Australian Prime Minister, sent
me last November, in his capacity as Treasurer, he says of the new
dollar system (as against the £):

"It is going to be somewhat of a nightmare for the next
few years getting used to new figures for items of budget
receipts and expenditure, national income and balance of
payments statistics, and banking and financial statistics
generally."

9. A factor which did not affect Australian thinking but is bound
to enter into our own, even if its weight is debatable, is what the
Halsbury Committee called the "international case for the £". The
salient propositions put forward are that the £ is an international unit
recognised throughout the world, widely used as a reserve currency
and for commercial transactions between third countries as well as
for the United Kingdom's own trade. Any change in the name or
value (e.g., by adopting the 10s. system) of the United Kingdom's main
currency unit involves the risk that some of those who at present hold
or use sterling may cease to do so. It is claimed that this could lead
to a loss of reserves and even a crisis of confidence, if a different
unit was substituted for the £ during a period when sterling was weak.
It could also affect the City's livelihood and therefore the invisible
receipts in our balance of payments. Habit plays a large part in
determining which currency is used and which financial centres get
certain business. A change from the £1 unit however technical, could cause people to question those habits. The majority of the Halsbury Committee were cautious about giving as much weight to the international case for the £ as some of its advocates claimed for it. Nevertheless they concluded that:

"a change-over in our main currency unit must have some effect, however slight, both on the standing of sterling and on the business of the City, and that this effect could only be adverse."

10. Opinion in this country seems fairly evenly divided on the issue of choice of system. Broadly speaking, the choice of the £ is upheld by the Bank of England, Building Societies and other financial institutions and the Co-operative Union, while the 10s. is supported by the retail trade, by transport interests and by the TUC. A number of organisations are neutral between the two. The CBI have been carrying out an enquiry and I understand that they are unlikely to come out with a firm recommendation in favour of either unit. Press comment was in favour of the 10s. at the time of the Halsbury Report's publication.

11. The balance of advantage between the two systems may be summarised:

A 10s. major unit would provide a decimal system unblemished by a ½ cent and easier associability in subsidiary coinage during the transition;

A £-cent-½ cent system would mean that we retained the £ both as a familiar measure of value at home and as a valuable national asset in our international dealings. It would be a more lasting system, with greater inbuilt resistance to the gradual decline in importance from which smaller currency units suffer as inflation reduces purchasing power and standards of living rise.

This is a difficult choice because most arguments tend to be rationalisations of prejudices. I started off as a neutral but having read the Halsbury Report very carefully and heard the arguments I have come down in favour of the £1 as the unit. There is an indefinable prestige about having a "heavy" currency, the system we are altering will need to last for several centuries, and I believe there is less in the argument about difficulties on change-over than some of the retail traders seemed to think.

Compensation

12. I do not think there is a good case for wholesale compensation of machine owners for costs of conversion and replacement in spite of the Australian precedent. Exceptional treatment might be necessary in some cases, such as the small retailer who owns a cash register or weight/value scales. It is fair to say that the organisations which would have to incur substantial costs on decimalisation are those that stand to benefit most both from the ease of working after the change-over and from the greater cheapness
and adaptability of decimal machines. Moreover, under the present system of tax allowances it seems likely that as much as half of the machine conversion costs falling in the private sector might be recouped in tax relief. We might announce that our preliminary view was that compensation as a general principle was not acceptable but that we would consider giving some assistance in certain cases.

Date of introduction

13. As regards the date of introduction, Halsbury recommended and everyone agrees that February is the best time of year. Australian experience may suggest the possibility of making economies in costs of conversion by having a longer preparatory period than the three years recommended by Halsbury. We are getting from the machine manufacturers an up to date view of the optimum preparatory period. The Mint needs a substantial period to prepare the coinage. I do not think that a date earlier than February, 1971, will be feasible. I recommend that we should announce this date.

Organisation

14. When the decision to decimalise is announced we should say that we shall set up a Decimal Currency Board who will be responsible for working out the detailed arrangements for the change-over.

Conclusion

15. I accordingly invite my colleagues to agree:

(a) that the currency should be decimalised;
(b) that the date of introduction should be February, 1971;
(c) that the unit should be the £1;
(d) that compensation as a general principle is unacceptable but that we should consider giving some assistance in particular cases;
(e) that a Decimal Currency Board will be set up to make the necessary arrangements for the change-over.

L. J. C.

Treasury Chambers, S. W. 1.

21st February, 1966
22nd February, 1966

CABINET

EXCHEQUER SUPPORT FOR A STATUTORY SCHEME
OF MINIMUM PRICES FOR WHITE FISH

Note by the Chancellor of the Exchequer

I attach a memorandum by the Chief Secretary, Treasury, about the proposal in C(66) 33 for an Exchequer contribution to the minimum price scheme.

I.J.C.

Treasury Chambers, S.W.1.

22nd February, 1966
EXCHEQUER SUPPORT FOR A STATUTORY SCHEME
OF MINIMUM PRICES FOR WHITE FISH

Memorandum by the Chief Secretary, Treasury

I can see no justification for an Exchequer contribution to the
minimum price scheme proposed by the Secretary of State for Scotland
and the Minister of Agriculture in C(66) 38.

2. It is difficult to assess the consequences of a scheme which has
yet to be worked out in detail. Nevertheless it will clearly have
controversial features which in my view make it unsuitable for Exchequer
support. My reasons are as follows:

(i) This is a scheme to benefit the industry. If the industry want
it, they should be prepared to finance it themselves; if they do not want
it enough to finance it themselves, there is no reason why the Exchequer
should bribe them to accept it.

(ii) It would be very unwise to subscribe to a statutory scheme at a
time when the existing voluntary scheme is under examination by the
Restrictive Practices Court.

(iii) The scheme would tend to protect the less efficient parts of the
industry and to raise the price of fish to the consumer.

(iv) I do not accept that there would be any substantial offset on
subsidies. It is true that the special subsidies given to help specific
trawlers over temporary difficulties might be somewhat reduced but
these are subject to a limit of £350,000 a year. They are currently
running at £35,000 a year.

(v) The balance of payments effects of the scheme would seem, at
best, uncertain. The existence of minimum prices could have the
effect of increasing the amount of fish which we import.

(vi) It is unwise to pledge ourselves to a scheme, particularly by
promising an Exchequer contribution, before its compatibility with our
international obligations has been thoroughly examined.

3. I therefore recommend that the proposal for an Exchequer
contribution should be rejected.

J.D.
CABINET

BROADCASTING: DRAFT WHITE PAPER

Memorandum by the Postmaster General

I attach, as Annex B, a draft White Paper on Broadcasting Policy, revised to take account of the points raised in Cabinet (CC(66) 10th Conclusions and CC(66) 11th Conclusions, Minute 4), some of which were discussed when the Prime Minister met the BBC.

For convenience, a ten-point summary is attached as Annex A.

I ask my colleagues' consent to publication at the earliest possible date for the following reasons:

1. The Ministerial review, announced last April, has been thorough and complete, and all relevant information is available.
2. Publication of the White Paper or statement in the Commons has been foreshadowed "early in the New Year". Pressure from both sides of the House is growing.
3. Speculation as to the Government's intentions, much of it inaccurate, and all of it damaging, is widespread. Denials are not possible until the policy is published.
4. By contrast the Opposition policy in favour of a fourth commercial television channel and local commercial radio has been made clear.
5. The deteriorating state of BBC finances is well known and until a firm statement about the licence fee is made the suspicion will grow (and be encouraged to grow) that the delay in publication arises from a reluctance to announce the further increase of £1 or more, which the BBC are seeking.
6. There is Press and public interest in the forthcoming White Paper and especially in the possibility of extending hours of television broadcasting and the prospects for colour.
7. The radio pirate issue is a continuing nuisance and source of political embarrassment and will remain so until the Government has produced its own plans for the future of sound broadcasting.
8. The White Paper, if it included a reference to the use of BBC television for the University of the Air, would give credibility to our intentions with regard to it. In this connection the establishment of the community stations also offers a limited scope for providing an outlet for such programmes.

I recommend that the Chairmen of the BBC and the ITA should be consulted about the provisions of the White Paper before it goes to the printer and that I should report back, if necessary.

A. W. B.

GPO Headquarters, E.C.1.

24th February, 1966
The following is a summary of the main points in the revised White Paper.

Television
1. No allocation of the fourth channel for the time being.
2. Increased hours of broadcasting in existing television channels to include:
   (a) Use of BBC television to launch the University of the Air.
   (b) More educational programmes on ITA including some experimental programmes drawn from sources other than the programme contractors and financed by the Authority itself without advertising.
3. Colour television to start on BBC 2 only in 1967.
4. Pay-television experiment to continue.

Radio
5. Local public service community stations to be licensed to provide, among other things, for the University of the Air. These may take some advertising, but will be non-profit making.
6. The possibility of a national music network, run by a small public corporation to be explored. Music and facilities might be hired from the BBC and paid for by controlled advertising. The network might be made available for sustaining community stations.

BBC Finance
7. No increase in the licence fee until 1968.
8. No advertising to be allowed on BBC sound or television programmes.
9. Additional sources of revenue for the BBC to be as follows:
   (a) £3 supplementary licence for colour television.
   (b) Stronger measures against licence evasion.
   (c) BBC to receive rental payments for music and facilities required for the music network.
   (d) BBC to receive payment for technical help in establishing community stations.
   (e) BBC to furnish transmitters and other facilities for the University of the Air on an agency basis.

National Broadcasting Commission
10. A Commission will be established to advise the Postmaster General on broadcasting matters referred to it by him.
1. On taking office, the Government succeeded to a number of unresolved problems in the field of broadcasting. The most urgent was the problem of BBC finance. Another was the problem of colour television and a third the question of allocating the fourth channel. The Government were also committed to the idea of creating a University of the Air that would offer new opportunities for those who have been denied access to higher education. There was also the question of local sound broadcasting, which had not previously been resolved.

2. For all these reasons, and because all issues of broadcasting policy are to some extent inter-related, the Government decided to undertake a comprehensive review. This has been in progress for over a year and has now been completed.

Principles governing the formulation of policy

3. Given the problems awaiting it, and the possibilities for the future, the Government have approached their task in the light of the six principles laid down during the debate on May 13th, 1965.

4. The principles were:

(i) A profound belief in the growing importance of radio and television to the community and the world.

(ii) A wish to see television and radio expand, as rapidly as national resources permit, to meet important national needs and to develop further their potential for education, information and entertainment.

(iii) A recognition that technological changes have opened up new possibilities for international programme exchanges and colour television.

(iv) A determination to uphold and entrench the principle of public service in all future television and radio development, this principle to be reflected in its purposes, in the allocation of channels, in the maintenance of programme standards, in public accountability without political interference, and in the integrity and independence of programme provision.

(v) A desire to permit the greatest possible freedom and scope for creative talent to express itself through radio and television, and hence, the encouragement of a diversity of outlets.

(vi) A readiness to consider various methods by which broadcasting can be financed, including (alone or in combination) broadcast licences, exchequer grants, local government grants and revenue from advertising under proper supervision.
5. Given these principles, which the Government believe command general acceptance, the proposals contained in this White Paper must be taken and seen together as a whole rather than as separate solutions to individual problems. The most important consideration throughout has been the listeners and viewers for whom the services are provided. With this in mind the Government have thought it right to entertain and consider all the various ideas and proposals put to them on the development, and organisation, of broadcasting services.

TELEVISION OF THE BBC

6. The BBC were committed by decisions of the previous administration, taken following the report of the Pilkington Committee, to undertake major expansion of their services, namely:

(a) BBC 2
(b) self-contained television services for Scotland and Wales
(c) more hours for sound broadcasting
(d) more adult education programmes
and (e) a start on colour television.

Except for colour television, these decisions, which were welcomed on all sides when they were announced, have been implemented.

7. The understanding on which the BBC proceeded to carry out a programme of expansion and development was that they would be afforded sufficient income to finance adequate services.

8. In October, 1964, the BBC informed the Government that the Corporation's deficit in the Home Services would amount to some £125m. by April, 1965, if nothing were done to increase their income and no other compensatory steps were taken. Accordingly, they asked that the combined sound and television licence fee should be raised from £4 to £5, and the sound only licence fee from £1 to £1 5s. Od., the increases to take effect on 1st April, 1965. It was, of course, the Government's duty first to satisfy themselves that the increase sought by the Corporation was justified. As, however, the BBC's deficit was rapidly increasing, immediate action was necessary. So, pending the outcome of their comprehensive survey of broadcasting policy - including a rigorous enquiry into the BBC's finances - the Government authorised an increase in the combined licence fee from £4 to £5; and in the sound only fee from £1 to £1 5s. Od. Both increases took effect on 1st August, 1965.

The remaining deficit

9. The Government have completed their review of the BBC's finances. In the course of the review, they have satisfied themselves that the Corporation operate with efficiency and economy. The Government review confirmed also that the estimated growth in the BBC's expenditure derived very largely from the additional commitments they were asked to undertake. There is thus little scope for savings except through drastic cuts in the services provided and in course of provision. Cuts of this kind would restrict the range and lower the quality of the services of broadcasting provided by the BBC for the viewing and listening public. The Government reject this course.
10. If the Corporation's commitments are to remain unchanged, and if no further steps are taken to provide additional income, the overall financial prospect with which they would be faced is that their cumulative deficit on the Home Services which stood at some £5m. on 31st March, 1965, can be expected to rise to about £17m. by the end of 1966-67 and to more than £30m. by the end of 1967-68.

Meeting the problem

11. Traditionally the BBC have always been financed by the licence fee system. This well-established constitutional device, accepted by the public, has provided an assured income and protected the BBC from detailed control and outside intervention.

12. Until recently the BBC have enjoyed a rising income because the number of television households has grown so rapidly. However now that near saturation has been reached the BBC cannot rely upon sufficient revenue from this source to meet their rising costs. In the future far more regular and sharp increases in the licence fee would be necessary, unless some other kind of revenue were found.

Borrowing

13. Under the BBC's Charter, the Corporation's borrowing powers are limited to:

- £10m. for temporary banking accommodation; and
- £20m. for capital purposes.

For the BBC, borrowing does not generate additional revenue, but only increases interest charges. It does not, therefore, offer a permanent solution to the BBC's financial problem. The Government reject the view that the answer to the Corporation's difficulties is to increase their borrowing powers.

An Exchequer subsidy

14. An alternative proposal has been considered under which the licence fee would remain the basic source of revenue but supplementary help would be forthcoming from the Exchequer. The BBC are unwilling to accept this arrangement since they believe it would make them liable to the same sort of detailed control now exercised over Government Departments. The Government also reject this proposal, both because it is incompatible with the independence of the Corporation and because it would involve either a substantial increase in the level of taxation or a reduction in important expenditure by other Departments.

Advertising revenue in all BBC programmes

15. A third possibility is that the BBC should be financed in whole or in part by commercial advertisements in all their programmes. This would certainly yield a substantial income. However it would be entirely contrary to the public service traditions on which the BBC has been built and would be incompatible with the duties expected of, and met by, successive Boards of Governors. It would destroy the BBC as we know it and the Government absolutely reject it as a solution.
Authorised licence increases

16. If these three solutions are excluded the BBC must either cut their services drastically, receive regular substantial increases in the licence fee or find some other form of revenue. On top of the extra £1 granted in August 1965 a further increase of £1 would be required in 1966. If the BBC were to utilise extended hours of broadcasting which the Government intend to authorise and were to be asked to undertake the task of establishing a complete network of local stations, a further increase of at least 10s. would be necessary relatively soon and perhaps another £1 in 1969-70. The Government cannot accept the idea that the public should be asked to pay increases of this order, which would weigh heavily on those least able to afford it.

17. The Government has therefore decided that they cannot authorise any further increase in the basic licence fee of £5 before 1968. The BBC must plan on that assumption, and exercise the strictest economy.

18. However the Government are prepared to consider other ways in which BBC revenue might be strengthened in the intervening period, and beyond.

New sources of revenue for the BBC

(i) New measures against licence evasion

19. It has been reliably estimated that of the gross revenue amounting to £80m. a year due from licences, some £9m. is lost through evasion, most of this arising from the use of unlicensed television sets. This cannot be allowed to continue. If measures to counter evasion are improved it would bring increased revenue without an increase in the licence.

20. The Postmaster General has already strengthened the work of his Department against evasion, in co-operation with the BBC. Work has begun on the possibility of transferring the licence records on to computers, which could reduce administrative costs and make evasion easier to detect.

21. The Government has now decided to go further. Consultations have begun with the retailers and rental companies to see what contribution they can make towards dealing with this problem. The Government hopes to find some way of securing the notification by retailers of television sets sold and of seeing to it that rented sets are properly licensed. Any necessary legislation will be introduced as soon as practicable.

22. It is impossible to estimate exactly what extra revenue this will bring in. The measures proposed may take effect relatively slowly. But the net yield from licence fees might be raised by some £2m. in the first full year rising to £7m. or more after about four years.

(ii) A supplementary licence fee for colour television receivers

23. When colour television begins in Britain extra expenditure will be incurred by the BBC. It would not be fair to ask viewers generally, the majority of whom will not have colour television sets, to bear the whole cost through their ordinary television licences. It is not unreasonable to ask those who can afford to
pay the high cost of buying or renting colour television to make a special contribution by means of a supplementary licence fee. The Government have decided to fix this supplementary fee at £3.

(iii) University of the Air television programmes

24. The Government would wish the first University of the Air programmes to be broadcast by BBC2 using some peak and some non-peak hours. In addition repeats of these programmes might be transmitted on BBC1 to serve a nation-wide audience in non-peak hours. The Government is now considering how these University of the Air programmes might be financed. But as and when they are introduced using BBC transmitters, payment will be made at cost to the BBC for these facilities.

(iv) Engineering and construction work for community stations

25. The Government have decided to establish independent community stations on a public service basis in a number of cities and towns. These stations will be self-financing and the BBC will be in a position to provide technical help in constructing and establishing them on an agency basis in return for payment.

(v) A national music programme

26. The Government believe that there is a demand for a continuous national music programme in this country. This is shown both by the popularity of live music on the BBC and by the audiences that listen to and enjoy records.

27. A music programme of this kind, uninterrupted by drama, talks or features, could be provided by re-programming music now provided by the BBC so as to bring it all together on the national wavelength used by the Light Programme. The present 3½ hour gap during the early hours of the morning might also be filled without too much difficulty. Such a programme should not be confined by any means to pop music.

28. In addition to meeting a clear national need, such a music network would also provide a sustaining programme to which the local community stations could switch for re-transmission over their own transmitters during periods of the day when they were not originating local material.

29. A music programme of this type would of course appeal to a maximum audience throughout the day and night, and would certainly attract very large numbers of listeners both nationally and locally.

30. This being so, the risks that controlled advertising inserted in it would operate to harm minority interests, would be minimised. The revenue thus obtained appears to offer a suitable and relatively harmless means by which BBC revenue could be supplemented. The Government is therefore prepared to explore with the BBC the possibility of establishing a small public corporation, transmitting on the BBC wavelengths and transmitters, buying music, renting facilities from them and financing itself by selling advertising time so as to provide a national music network entirely separate from the BBC. This national music network would then also be made available as a sustaining programme for the community stations which are to be established. In this way the BBC would be relieved of the present costs of running the Light Programme, and would receive a contractual income furnishing an additional source of revenue. Organised on this basis there would be no advertising on any BBC programmes in sound or television.
31. The Government believes that the proposals described above offer the twin advantages of helping to keep the BBC licence fee within reason and preserving the public service principles in sound broadcasting.

**COLOUR TELEVISION**

**Choice of System**

32. As the Postmaster General has already announced, his Television Advisory Committee has recommended that colour television be introduced on the 625-line standard only, using the PAL system of transmission.

33. The Government accept this recommendation. In doing so, they record as a main consideration the expectation that the PAL system will be adopted in most Western European countries. The possibility cannot altogether be discounted that, at the meeting of the International Radio Consultative Committee due to take place in Oslo in June of this year, another system might—against present expectations—find general acceptance for common use throughout Europe. In that event, the Government would naturally undertake to take this into account, and if necessary reconsider their decision.

**Line Standard**

34. The effect of the decision to confine colour television to the 625-line standard is that only BBC2 will be able to transmit in colour initially. However, the Government re-affirm the decision of the previous administration that all programmes in UHF should be on the 625-line standard and this will open the possibility of colour in all future television channels.

**Timing of a Start**

35. Colour television is now developing rapidly in North America, has already started in Japan and some European countries have announced their intention to open a colour service next year. Unless Britain, which pioneered television, is to be left out, an early start should be made in this country as well.

36. The Government have of course had to take seriously into account the demands on resources which a colour service would make over the next few years. The BBC have planned on the basis of only four hours of colour each week at the outset, rising to about ten hours a week within a year. The additional cost to them of broadcasting colour on this scale would amount to some £1m. to £2m. a year. Consumer expenditure on colour receivers, depending on the number acquired, might rise to £100m. between now and 1970. However some of this expenditure would be counter-balanced by a reduction of other forms of consumer expenditure by viewers buying colour sets. The demand on skilled manpower is relatively small.

37. The case for an early start with colour is strong. The industry is ready and anxious to go ahead. They see export possibilities and fear the long-term consequences of excluding ourselves from the technology required for producing colour components. The producers, directors and other creative people in television see colour as a way of revitalising their work. There are also opportunities for the export of colour programmes made in Britain.

38. These arguments are, in the Government’s mind, sufficiently powerful to justify a start. Since it has been decided to conserve resources by not authorising a fourth television channel at present, the Government feel that a regular colour service should be started in the autumn of 1967.
39. Although the programme contractors will not have access, in
the short-term, to a fourth channel on which colour programmes
can be shown, they might be able to reach agreement with the BBC
for the showing on BBC-2 of any colour programmes that they may
produce. These colour programmes could carry the name of the
programme contractor that made them and be paid for out of the
supplementary colour licence fee. They would not carry advertise­
ments. In this way those paying the supplementary licence fee
for colour would get access more quickly to more colour programmes
than the BBC could themselves provide. In addition the programme
contractors would have a home market with which to sustain their
export efforts for selling colour television programmes.

LOCAL SOUND BROADCASTING

The technical considerations

40. There is no frequency space for a general service of local
sound broadcasting in the highly congested medium and long wavebands
covered by the ordinary domestic receivers and transistor portable
sets. There is frequency space available, however, in the very
high frequency (VHF) Band II; and, used intensively, under a
co-ordinated national plan, this could provide for some 350 local
stations. Not all of these 350 locations would however coincide
with considerable centres of population, but in practical terms
some 200 towns and cities could be served. A typical station
would have a range of some five miles. More than one station would
be needed to cover the largest centres of population.

41. During the hours of daylight, when there is less congestion in
the medium waveband, some local sound transmissions on VHF might
be duplicated on medium wavelengths. Some low power stations might
be provided in such a way as not to interfere with existing stations
transmitting the BBC's present sound services (and those of other
countries). The advantage would be that broadcasts of the local
stations could then be received by people without VHF receivers.

The purpose of a service of local broadcasting

42. Though the country is already well served by the national and
regional sound services provided by the BBC, the Government believe
that local sound radio could bring a new and revitalising element
into broadcasting and make a valuable contribution to community life.
Properly used, it would also have a useful part to play in education.

43. The Pilkington Committee concluded that worthwhile local sound
broadcasting stations would transmit "for a sufficient part of the
broadcasting day, material of particular interest to the locality
served by that station rather than to other localities." In the
White Paper of July 1962 the previous Administration said they
agreed "that the justification for local sound broadcasting would
be the provision of a service genuinely "local" in "character".
The Government share this view.

44. It would be a misconception of the role of local sound broad­
casting to expect of it a service limited to playing continuous
"pop" music throughout the day. In the first place, this would be to
ignore its main purpose of providing an essentially local service.
Moreover, local stations would be liable to pay for copyright and to
observe the agreed amounts of "needle-time" negotiated with the
phonographic industry with the support of the Musicians' Union.
Organisation and finance

45. In considering how the service should be constituted, organised and financed, the Government have adopted a single practical criterion; how best to serve the essential purposes of local broadcasting. It is against this background that the Government have considered the various claims to provide such a service.

**BBC stations**

46. The BBC have expressed a willingness to mount a pilot scheme, within the revenue from the present 25s. sound licence fee, in seven main centres. The Corporation have already undertaken a series of close-circuit experiments which have shown the expertise and professional enthusiasm which the BBC would bring to the provision of a service. But the BBC is a unitary structure, organised primarily to provide services on the national scale. Though the Corporation have expressed their readiness to afford managers of local stations a great degree of freedom from day-to-day control from Broadcasting House, nevertheless the Government are not persuaded that a national organisation which already has a monopoly in the provision of sound broadcasting is best fitted to provide new local services. In addition it would not, in the Government's view, be right to ask people living in areas which could never receive BBC local stations to pay for them through licence fees. Nor, in the present state of BBC finances, would it be right to impose fresh and expensive commitments on them. The Government do not therefore propose to take up the BBC's offer to conduct a pilot scheme.

**Commercial stations**

47. The expectation is that, for many years to come, there would be only one station serving any particular locality. Such a station would have a monopoly for the sale of local advertising time. Moreover, it would be the principal objective and duty of commercial companies to secure a good return on the money invested in them. The Government believe that this objective and duty would prove quite incompatible with the need to provide a service which would find expression for the particular interests and tastes of many differing communities. There is another important consideration to be borne in mind. If a fully developed service of local commercial radio stations were to be established the advertising revenue diverted from the local newspapers might endanger the survival of many of them, which would detract from community life. Moreover, if to avert that result local newspapers were themselves allowed to own the local stations a local monopoly of local news and comment would be established with even greater risks to local democracy. Accordingly, the Government reject the proposal that a service should be provided by commercial companies.

**Community stations**

48. The Government conclude that another solution is to be preferred namely, that local community stations might be established and operated on a public service footing under the control of local broadcasting authorities composed of people drawn from the local community and sufficiently representative of it. They have therefore decided to authorise the experimental establishment of stations on this basis. The Postmaster General will be prepared to consider applications for the authorisation of local sound broadcasting stations from bodies of local people who will constitute themselves to sponsor an application and can satisfy him as to their suitability and competence. The general conditions under which the Postmaster General will be prepared to authorise such stations will be published shortly. The Government would particularly welcome applications from the headquarter towns of the new economic planning Regions.
Financing of Community Stations

49. The local broadcasting authorities would be charged with the whole responsibility for finding the necessary finance, both capital and revenue. A worthwhile service must be able to count on regular and sufficient income. Though the Government hope that a sense of pride of community, especially among local authorities, would lead local interests to contribute, by gift or subscription, sufficient financial and other help for their stations, they recognise that this may not suffice. The broadcasting authorities would therefore be empowered to sell advertising time on condition that the amount of advertising would be no more than was needed to finance the service and was strictly controlled in volume and character.

50. Each station would be required to transmit a proper proportion of educational programmes. Some of these would no doubt be provided on behalf of local education authorities, colleges and universities who would in that case provide or finance the programme. The stations would also provide an outlet for sound programmes produced in connection with the University of the Air. They would not be financed by the rates except insofar as local education authorities decided to use them for educational programmes. The Government believe that these stations could and should develop in such a way as to become patrons and sustainers of local cultural life and thus stimulate the arts, drama and live music.

51. The role of local authorities in launching these local stations could be a major one. But in matters of programme content the stations would not be subject to any local authority control; in that respect, following the practice of independence from Parliamentary control enjoyed by the BBC and the ITA.

Effect on the Press

52. Many local newspapers which saw the prospect of commercial local sound broadcasting as posing a threat to their continued existence can take some reassurance from these proposals. It is to be a condition of the establishment of a local station that it must not be profit-making; and the Government are satisfied that, with this safeguard, such stations could play a useful part in enriching community life without unfair competition. In addition it is certainly visualised that leaders of the local press would be appropriate people to serve on local broadcasting authorities. Moreover, local stations would almost certainly require and pay for services of news and information supplied by local newspapers.

Term of the Initial Licences

53. In the Government's view, four years should be enough for the initial period of the licence and agreement concluded with each authority. Towards the end of the period the working of the experiments would be reviewed and the constitution and organisation of the service on a longer-term basis decided in the light of experience. A decision of this importance, involving as it does the beginnings of an entirely new type of broadcasting organisation based on public service principles with a mixed revenue, ought to be reviewed at such a stage in its life.
A NATIONAL BROADCASTING COMMISSION

54. Broadcasting is developing so fast that Committees of Enquiry at twelve-year intervals do not come sufficiently frequently to advise on all the problems that arise in this field. For this reason the Government have decided to establish a National Broadcasting Commission with the following terms of reference:

"To advise the Postmaster General on such questions as he may refer to it relating to the domestic broadcasting services of the United Kingdom, and insofar as the BBC and ITA services are concerned the Channel Islands and the Isle of Man."

The problems of the BBC's external services are different in kind from those of the domestic services and it is not contemplated that these would be referred to the Commission.

55. The chairman and members will be selected on the basis of the individual contributions they could make and would not be chosen in any sense as representatives of the public in general or any sectional interests. They will be appointed by the Postmaster General who proposes to invite, besides the independent members, the Vice-Chairman of the BBC and Deputy Chairman of the ITA to join the Commission.

56. The main functions of the Commission would be to advise on major questions of broadcasting policy. Though it would be open to the Postmaster General to refer to the Commission broad and general questions relating to programme standards, he would not refer to it, nor would it entertain, individual complaints about particular programmes. The Commission would report to the Postmaster General who would present its report to Parliament for consideration and who would take account of it in his major decisions. The Commission's advice to the Postmaster General would not itself be made binding on the broadcasting authorities, whose discretion in the discharge of their responsibilities must remain unqualified. The Commission would however provide a valuable and independent source of advice entirely free of Government influence upon issues of policy as and when they arise. The broadcasting authorities, including the new local broadcasting authorities, would certainly wish to take serious account of this expression of opinion along with that expressed in Parliament, the press and direct representations from members of the public.

57. In summary, the Commission's purpose would be to provide the Government with advice on the issues of policy referred to it and to reinforce the methods by which public opinion is brought to bear on the broadcasting authorities; but it would neither displace the present agencies through which that opinion expresses itself, nor derogate from the responsibility of the authorities for the programmes they broadcast.

HOURS OF BROADCASTING

58. The Government have considered the question of extended hours of television broadcasting by the BBC and the ITA. Since the fourth network is not to be allocated for the moment, there is a strong case for allowing existing channels to be used more fully. In particular the ITA (having only one channel, as compared with the BBC's two), has a special claim for more hours. There is also a public interest here in that an increasing number of shift-workers and others miss the opportunity of viewing at peak hours and are now deprived of any television for part of the day. There are many housewives, invalids and elderly people who are at home during the day and would enjoy more television.
59. The Government's conclusion is that while the Postmaster General's powers of control over broadcasting hours must remain, the time has come for a considerable increase in the permitted hours.

More educational broadcasting

60. The Government consider, however, that within the extended hours a greater place should be found for educational programmes and they are therefore discussing with the broadcasting authorities the arrangements to provide for this and, in the case of the ITA, to provide also for experiments within the terms of the Television Act 1964, which allows the ITA to seek out educational programmes from sources other than the programme companies. In this way, the ITA might develop still further its existing role as "publisher" of programmes, in this case without the intervention of advertising matter. These programmes would be financed by the Authority itself, and would be non-commercial.

THE ALLOCATION OF THE FOURTH NETWORK

61. The Government have given very careful consideration to the question of the fourth network. Such a network if established and operated, whether by the programme contractors or a new public corporation, would involve the allocation of considerable capital resources. The Government are not satisfied that it would be right to take this decision at this time while there are still so many hours unused on BBC 1 and 2 and the ITA. Moreover experience may well show that the University of the Air might need an outlet on this network in peak hours. It would clearly be wrong to allocate it for general programme use until this and other questions can be resolved. The fourth channel will therefore not be allocated for the time being.

PAY TELEVISION

62. Under the previous administration licences were issued to three companies authorising them to mount an experimental service of pay television. All but one of the companies decided not to proceed with the experiments and the remaining company (Pay Television Ltd.) began to provide a service in January, 1966. The Government will keep the experiment under review.

CONCLUSION

63. The BBC's Charter and the Television Act expire in 1976. The Government believe that the developments outlined in this paper, and the later allocation of the fourth network, should set the pattern for the growth and expansion of broadcasting as a public service for the remainder of the decade. Insofar as further decisions will be required in the interim, the Government will have the advice of the National Broadcasting Commission.
COMPREHENSIVE REORGANISATION AND RAISING OF THE SCHOOL LEAVING AGE

Memorandum by the Secretary of State for Education and Science

I think my colleagues should be aware of certain problems in the field of school reorganisation which may give rise to controversy and difficulties in various parts of the country. We initiated last year the reorganisation of secondary schools on comprehensive lines, but without providing any money for it. We inherited from our predecessors a commitment to raise the leaving age to 16 in 1971 and I do not regard it as either politically or educationally possible to postpone this reform. The school population is growing rapidly. We have provided in the National Plan for larger building programmes than in the past but this will only accommodate extra numbers and do little or nothing to improve the old schools. Moreover, there are already signs that some local education authorities are not going to find it easy to build at the rate envisaged in the Plan.

2. A strong minority of local education authorities would much prefer to be allowed to make their plans on the basis of a different age of transfer from the primary to the secondary stage either because they (rightly) dislike the 11-13 schools which comprehensive planning on the basis of the present age of transfer forces upon them; and/or because a different age would, in their particular circumstances, allow a more economical use of buildings and teachers.

3. I therefore propose (without any public fuss) to permit those authorities who can show me that a different age of transfer from 11 would produce an educationally better comprehensive system and a more economic use of buildings, to adopt what they consider the most sensible age. A period of diversity throughout the country is in any case inevitable for some years while reorganisations proceeds, and indeed I have an open mind on whether in the long run it would prove disadvantageous.

4. This decision will ease my troublesome relations with the Central Advisory Council (England) under the chairmanship of Lady Plowden, which was appointed by the previous Government to review primary education and the age of transfer to secondary schools and is likely to report in July or the autumn. On present indications the Council will recommend an eventual change to 12-plus with an interim period of local option. I could not possibly accept this after
the Council had reported in the autumn; for comprehensive schemes are due to be in to me by July, and to announce a change in the age of transfer in the autumn would therefore make a farce of the whole comprehensive operation. But to permit a limited degree of local option now will avoid a clash with the Plowden recommendation, when it comes.

5. I ask my colleagues to note that I intend to go ahead with comprehensive reorganisation and the raising of the school-leaving age and to allow local variation in ages of transfer where this will make the best use of existing resources and produce the best educational results,

C. A. R. C.

Department of Education and Science, W. 1.,

25th February, 1966
CABINET

MINISTRY OF SOCIAL SECURITY: DRAFT WHITE PAPER

Note by the Minister of Pensions and National Insurance

I attach for the Cabinet's consideration a draft White Paper on the Ministry of Social Security. The text incorporates amendments made in the light of discussion at the Ministerial Committee on Social Services.

M. H.


25th February, 1966
PLAN FOR THE MINISTRY OF SOCIAL SECURITY

DRAFT WHITE PAPER

Introduction

1. In recent years social workers and social science research workers have maintained that a large number of old people who could have national assistance do not apply for it. Last year the Government carried out its own survey of the circumstances of retirement pensioners. About 9,000 people were interviewed. There is still some work to be done on the detailed analysis of the results, but the broad picture is now clear. One of the main objects of the enquiry was to find out the numbers of pensioners who could receive national assistance, if they wished, but were not doing so. As regards the total number of such people, the findings are broadly consistent with those of earlier studies in this field. The survey showed that there may be about 700,000 retirement pensioners who might receive some national assistance if they asked for it. However, it seemed that for more than half of them the gap between their resources and their needs, measured by the national assistance standards is being met either by income which the Board would disregard, or by help from relatives or friends, particularly those living in the same household. For many of the others the gap appeared to be partly, but not wholly, met in this way. Nevertheless, there may be approaching 250,000 who really need help but have not asked for it.

2. The survey also tried to find out why people did not apply when they could do so. Of those in the sample about a third said they were managing all right. About one in five said that their pride would not let them apply, or that they disliked charity, or were unwilling to lose their independence, or gave similar reasons. Three out of ten gave answers showing that lack of knowledge or misconceptions had kept them from applying; the proportion of these was higher among the younger pensioners than among the older.

3. It seems clear therefore that something more than increased publicity and improved information services are needed to solve the problem of getting help to all the elderly people who need it. The problem is an urgent one and the Government believes that it should have the next priority in the development of social security. The changes which the Government has accordingly decided to make, subject where necessary to the approval of Parliament, are described in the succeeding paragraphs.
The Ministry of Social Security

4. A Ministry of Social Security will be established this year, bringing together the existing Departments of the Ministry of Pensions and National Insurance and the National Assistance Board. This reorganisation will have three main aims in view. Firstly, the creation of the new Ministry will put an end to the distinction between separate offices for the administration of insurance benefits on the one hand and means-tested benefit on the other. Secondly, the local administration of the two present Departments, with their skilled and experienced staff, will be developed to provide a more comprehensive and convenient service for the public, and a more effective instrument to ensure that people who have not so far claimed the help to which they are entitled are encouraged to do so. Thirdly, the co-ordination of policy for all social security benefits will be made easier by the substitution of one Ministry for two Departments.

New non-contributory benefits

5. With the establishment of the new Ministry will go a new structure of non-contributory benefits which will replace national assistance. This will include a form of guaranteed income to be known as a "pension" for the old. The benefit for the others will be known as an "allowance". Assessment of the pension or allowance will be based on different levels of income, for householders and non-householders and for single people, married couples and families. Rent will be allowed for in addition. Provision will be made for additional payments to meet special individual needs, but the aim will be to make this part of the scheme more readily understandable than the discretionary additions now made, mainly for the elderly, under present arrangements.

6. "Disregards" will be completely revised. National insurance pensions and benefits, family allowances and maintenance payments will be taken fully into account, but there will be a small "disregard" of other forms of income. The amount of savings of any kind to be totally ignored will be substantially increased and modest savings will all be ignored, no matter how they are invested. Further, the fixed upper limit, at present £600, on the amount of savings above which no benefit is payable will be abolished. Instead, capital which exceeds the amount which can be totally ignored will be taken into account as income under a graduated tariff and this "tariff" income will be aggregated with any other income in applying the income disregard. The special treatment at present accorded to "war savings" will no longer be justified. Accordingly, the amount of capital, above the amount to be ignored, which will make a person ineligible for an award will vary with the extent of his other resources, as well, of course, as his needs.
Procedures for claiming and review of awards

7. It will still be necessary for claimants to make a statement of circumstances so that benefit can be assessed. But the procedure will become much more flexible for people over retirement age. They will have a choice of sending to the Ministry's local office a written declaration of their circumstances or of being visited at home. If they choose the first, the assessment based on the written declaration will need to be confirmed by an interview, but if desired this could take place at the local office.

8. The pension for the old will normally be reviewed and renewed only once a year.

9. The combined effect of these changes will be to reduce the frequency of home visiting of the long-term cases. There will be fewer visits; but visiting officers will have more time, when they do make a visit, to ensure that any welfare needs are identified and brought to the notice of the appropriate service.

Combined Order Books

10. The Government intends that when an elderly person receiving the new pension also has a national insurance pension the two shall be paid together on a single order book. Those who are not receiving retirement pension will receive payment on an order book of similar appearance to the retirement pension order book. The process of replacing the separate books by the combined book must necessarily take some time but the Government hopes to start a pilot programme in a selected Region soon after the new scheme begins.

Making sure that pensioners' needs are met

11. To overcome lack of knowledge or diffidence the new Ministry will send to everyone claiming a national insurance retirement pension details of the new pension with a claim form. Arrangements will be introduced as soon as possible to make personal contact with every national insurance pensioner who, on retirement, does not claim the new pension unless he indicates that he does not want one. Similar arrangements will be made to get in touch with married women not already receiving a non-contributory benefit if they are widowed. Is this scheme for personal contact develops further checks will be introduced by arranging to contact pensioners after they have been retired for some years if they have not already claimed the new pension.

12. Cash grants are not the only kind of help that old people fail to seek. A wide range of services to meet health and welfare needs is provided by local authorities but recent investigations by social scientists and the experience of both local officers of the Board and of local authorities have shown that these are too often not known by old people or the effort to make the necessary contact is beyond them. The Government intend to ensure that all such people are made fully aware both of the cash grants and of the other services available. The contacts made under the arrangements described in this paper will make a valuable contribution to this object.
Administration of non-contributory benefits

13. The Government believes that in order to preserve flexibility and responsiveness to human needs the new non-contributory benefits should, like national assistance today, be administered by an independent corporate body. Within the Ministry of Social Security therefore there will be a Commission of persons chosen for their interest in, and knowledge of, social problems, in whom will be vested the responsibility for running the new scheme, including decisions on individual awards, under broad regulations made by the Minister: arrangements for appeals to local Tribunals will be retained. Other responsibilities at present laid upon the National Assistance Board, for example assessments for legal aid, will be transferred to the new body.

Time-table

14. The Government hopes to introduce early legislation on these proposals.

Conclusion

15. When the changes are complete the Government believes that they will be seen to preserve what is good in the present scheme of national assistance while getting rid of those features which at present create dislike or misconception. These features are in no way the fault of the National Assistance Board or its officers. Everybody recognises the humanity, efficiency and devotion with which the present scheme is administered and the Government is confident that these qualities will be carried over into the new organisation. But the new Commission and the staff doing its work will be enabled to do an even better job for those of our people in need. There will no longer be the present sharp distinction between national insurance benefits related to contributions and help which our people as a whole wishes its less fortunate members to have. The elderly in need will be supported by a system of payments which gives dignity because it will incorporate more stability and involve less frequent enquiries.
CABINET

ELECTION BUSINESS COMMITTEE

Note by the Secretary of the Cabinet

On the announcement of a Dissolution it is customary for the Government to appoint, for the period of the Election campaign, a Cabinet Committee to supervise the work of advising Government candidates about the replies which they should return to questionnaires and other enquiries put to them during the campaign. The Prime Minister has accordingly appointed a Committee to carry out these duties, consisting of:

Prime Minister (in the Chair)
First Secretary of State
Lord President
Chancellor of the Exchequer
Foreign Secretary
Minister of Housing and Local Government
Minister of Labour
Paymaster General

2. The Secretaries of the Committee will be Mr. P. Rogers, Mr. C. B. Nixon and Mr. M. J. Moriarty of the Cabinet Office.

3. A note is annexed on the procedure for submitting matters to the Election Business Committee and for dealing with enquiries or requests for information, particularly by Parliamentary candidates, during the Election campaign.

(Signed) BURKE TREND

Cabinet Office, S.W.1,

GENERAL ELECTION: REPLIES TO ENQUIRIES

It is desirable that all Departments should, so far as possible, follow a common procedure in dealing with enquiries or requests for information, particularly by Parliamentary candidates, during the Election campaign.
2. Departments should provide any Parliamentary candidate with factual information which is readily available and is not confidential. Such information should not, however, be provided if its extraction would require a substantial use of official time; a useful criterion is whether information would be extracted for the purpose of a reply to a Parliamentary Question. Local and regional offices should deal on this basis with any enquiries addressed to them; but they should refer doubtful cases to the headquarters of their Department for decision.

3. For information not of a factual nature, or for guidance on policy, Labour candidates and their agents are expected to look to Transport House. In order to prevent much separate and unco-ordinated correspondence between Transport House and individual Government Departments, the Election Business Committee of the Cabinet has been appointed to supervise the work of advising Government candidates about the replies they should return to questionnaires and other enquiries put to them during the campaign. Transport House will accordingly collate questionnaires or particular questions which they receive, and normally will prepare first drafts of replies. All drafts will be forwarded to the Paymaster General who will in appropriate cases obtain, through the Election Business Committee, the comments of the Ministers concerned upon them in order to check the information and arguments originally supplied by Transport House. The Secretary of the Committee will, where this seems necessary in the light of a Minister's comments or the comments of Transport House, submit final drafts of replies for the Committee's approval. Transport House will thereafter be responsible for passing on the necessary guidance to candidates.

4. Requests for information not of a factual nature, or policy enquiries from Labour candidates, which are addressed to Departments, should normally be referred, through Ministers' Private Offices, to the Paymaster General, accompanied, in appropriate cases, by advice from the Ministers on how such enquiries should be answered and on the question whether they are of such a nature as to require consideration by the Election Business Committee. A copy of any such communication should be sent to the Secretary of the Election Business Committee at the Cabinet Office.

5. Requests for information not of a factual nature, or policy enquiries which are addressed to Departments by individual members of the public, are usually answered by or on behalf of the responsible Ministers. During the Election campaign this procedure is still correct, but Ministers should arrange for copies of the correspondence to be sent to both Transport House and the Secretary of the Election Business Committee.

6. Enquiries addressed to Departments from any quarter may call for an important statement of policy to be made by the Minister concerned. In that event a Minister may decide himself to seek the guidance of the Election Business Committee; and in any case it would be advisable to inform the Secretary of the Committee of the enquiry and of the terms of the reply.
7. The function of initiating guidance to Labour candidates in cases where no issue of policy is concerned normally belongs to Transport House. Exceptionally, Ministers may wish to suggest topics on which guidance should be given. In these instances, suggestions should be sent to Transport House who will prepare first drafts and forward them to the Paymaster General, who will arrange for them to be considered, as necessary, by the Election Business Committee.
1st March, 1966

CABINET

COAL PRICES

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

At their meeting on 7th October, 1965, the Cabinet (CC(65) 50th Meeting, Minute 2) agreed that the proposals of the National Coal Board (NCB) for increased prices should be submitted to the National Board for Prices and Incomes (NBPI) as well as to the Consumers' Councils. These procedures were to be completed in time for any agreed price increases to be brought into effect from 1st April, 1966.

2. The National Board for Prices and Incomes have recommended that coal prices should be increased to obtain additional revenue of £80 million in 1966/67. They have also recommended "that the price increases should not be uniform across the country, but that the National Coal Board should use the possibilities open to it on varying the price increases so as to reflect more closely the costs of individual areas".

3. The NCB have proposed price increases totalling £80 million but distributed (so far as industrial coal is concerned) so that the largest increases are in the areas with high costs. The East Midlands is to have no increase in order to maintain the competitiveness of coal from this field. Scottish coal, which had a substantial price increase three years ago, is to increase somewhat less than other high cost areas.

4. So far as domestic house coal is concerned, the only regional differential increase proposed, is that the best grade of coal in Scotland should not have the full increase proposed for England and Wales. Indeed, because of the effect of summer prices, domestic house coal would not increase in price before November in any region.

5. The proposed distribution of price increases will still leave the Scottish, North Western and South Western (including Wales) coalfields making an overall loss.

Previous proposals

6. A similar proposal for differential price increases was before the Cabinet last summer but referred to a total increase of £40 million. The proposal was discussed in the Economic Development Committee and was reported in my paper C(65) 120, which concluded: "The consensus of view was that, if the price increases were approved in principle, it would be right to apply them in the manner suggested by the National Coal Board, which would be consistent with the Board's objective of concentrating production as far as possible on economically viable pits. But those of us who were opposed to the idea of a price increase at this time thought that our objections were strengthened by the difficulty of reconciling with our regional policies increases of coal prices which would fall particularly heavily on regions where the need for development was greatest".
7. In the event the Cabinet decided to postpone the price increase for the time being. We have, however, publicly endorsed in the White Paper on Fuel Policy (Command 2798, Paragraph 52) the National Coal Board's long-term aim of making each coalfield self-supporting and securing a better correlation between prices and costs of the various coalfields and the various coals.

8. Given the need to raise £80 million rather than £40 million, the present proposals by the National Coal Board involving regional differentiation for industrial coal, are consistent with the view taken by EDC last summer.

**Argument for differential prices**

9. It would be possible to increase prices uniformly, or, indeed, to a greater extent in the low cost areas. In this case the low cost areas would be subsidising the high cost areas. As a short-term policy or as a regional policy this might appear attractive but it has undesirable long-term effects:

(a) The good pits would tend to price themselves out of the market. The market would therefore shrink in just those areas where the coal industry's long-term prospects are best.

(b) The demand for coal from high cost coalfields would be maintained at an artificially high level. There would be an incentive to keep them going and to invest more in them than desirable.

In brief, we would be fostering an uneconomic use of resources.

10. If, however, we follow the proposals put forward by the National Coal Board we will encourage the use of coal from the low cost fields and the redeployment of the industry in accordance with the White Paper on Fuel Policy.

11. It is, of course, an inescapable fact that the high cost fields are in the development areas. It may be argued that a coal price increase in development areas would be contrary to regional policy. But long-term development in these regions will not be helped by keeping men in exhausted or unprofitable pits. If we wish to help these areas, the right way of doing so is by direct government aid and not by taxing the profitable coalfields to pay for the unprofitable.

**Recommendation**

12. The need to raise £80 million in 1966/67 is set out in the report of the National Board for Prices and Incomes. That report indicated that the cost position of the coal industry is likely to deteriorate rather than improve in the long run and that there is no case for delaying the increase further.
13. The proposed differential price increase for industrial coal (which was also advocated in principle by the NBPI) is necessary for the future competitiveness of the coal industry. The proposals for the scale and distribution of price increases are consistent with previous Cabinet decisions.

14. It is therefore recommended that these proposals of the National Coal Board and the National Board for Prices and Incomes be accepted.

G. B.

Department of Economic Affairs, S.W. 1.

1st March, 1966
CABINET

BROADCASTING PROSPECTS

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for information, a copy of the letter sent to the Prime Minister on 28th February by Lord Fulton, Vice-Chairman of the Governors of the British Broadcasting Corporation,

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

1st March, 1966
I am now able to give you a first reaction to the various financial points which you raised at our meeting on 16th February. It is already clear from our preliminary studies that if the BBC is to consider its expenditure in the same drastic terms as have been applied to Defence expenditure by the Government, we can see our way to survival on the basis of a £5 combined licence and the exercise of our initial borrowing powers for two years, and perhaps for three (that is until the end of 1967 or 1968). At that time, there would have to be an increase in the licence fee.

2. Our calculations are based in part on the result of action already taken by the BBC, and on further action which we could take during the next two years. We have been conducting in recent months an intensive review of our administrative practices, and the savings which have emerged from this review are now beginning to yield a significant return. It is possible that further savings remain to be realised and we shall continue our studies to this end, probably in conjunction with outside specialists in the technical and operational fields. In addition, we believe that we could make cuts in activities which we have hitherto considered well justified, but which, against the background of continuing financial stringency, may perhaps have to be sacrificed to the overriding national demand for economy - and even austerity. These further cuts would be of a permanent character and could be expected to yield continuing savings.

3. Our initial calculations rest upon certain assumptions which appeared to us to emerge from what you said in the course of our meeting. The most important of these was that the Government would be willing to introduce in 1966 legislation to make possible more active measures to reduce licence evasion. A statement now of the Government’s intention to introduce such legislation might well provide the basis for some initial voluntary co-operation from the television rental companies.

4. The next assumption which we drew from the conversation - and it is, perhaps, of equal importance - was that the Government would be prepared to deal with Independent Television in such a way as to prevent the programme companies from taking advantage of the BBC’s financial limitations during the period in which we would seek to live within a £5 licence. The activities of Independent Television could affect us in two ways. The first would be by a competitive inflation of programme costs. The second would be the extension of hours of television broadcasting.

5. The BBC would be seriously embarrassed if the programme companies were to adopt a policy of inflationary offers to Unions, promoters, artists and staff. We already have evidence that this happens even in present circumstances. Lavish offers have been made to artists - some of whom were developed in the first instance by the BBC. We have been unable to retain their services because we have found it impossible to match the financial inducements held out to them by the programme companies. We should wish also to draw your
attention to the inflationary effect on fees from even the present limited experiment in Pay Television supported, as it is, by Viewsport with its interest in large-screen television for public showing. We are already feeling the practical effects of such inflationary offers in the field of sports promotions. Once the new levels of fees have been established by the intervention of Pay Television and Viewsport they are unlikely to be reduced. The strain on the BBC's resources would be permanent.

6. If the Government were to accede to the request of the Independent Television Authority for an extension of the hours of general television broadcasting it would be necessary for it also to concede parity to the BBC. We should then be placed in a position in which we could not continue to live within our present income. Further, any extension of hours would seriously prejudice our capacity to meet the wishes of the Government should we be asked to undertake the production of programmes for the "University of the Air". Such production would make a maximum call on our studio facilities, and we should be unable to respond if these had already been pre-empted by the general programmes which would result from an extension of normal television programme hours.

7. Although it did not form part of our discussion on 16th February, I should like at this point to refer to the Postmaster General's new suggestions about a music programme incorporating advertising, which he put to us on Friday afternoon. Our reaction was that these proposals were ruled out on programme considerations alone and would be seen by important sections of the audience as an unjustifiable deprivation. I confirm that this is our considered view. Nor do we think that the financial proceeds would represent a significant alleviation of the BBC's financial problem.

8. To sum up, the long term prospect for the BBC is of a period of restriction, drastic economy and some reliance on borrowing for the next two years, followed by a need for an increase in the licence fee in either late 1967 or perhaps in 1968. If, in the meantime, the measures to be taken against licence evasion produce anything like their potential yield, an increase of the licence fee to £6 at that time might well carry us through until the mid 1970s - in fact almost to the end of the present Charter period. There is, as we said at our meeting, no such daunting prospect as an annual increase of 10/- in the amount of the licence fee. This is far beyond anything that has ever been contemplated by the BBC, even during the recent period of unprecedented expansion.

9. There remains the question of colour television. We recognise that it would not be in the national interest for Britain to fall behind the rest of Europe in this important technological field. In the knowledge that several major West European countries are now definitely committed to a start on colour television in the autumn of 1967, we have concluded that our budgetary provision for a start in colour television before the end of 1967 should not be reduced in the course of our financial review.
10. The essential foundations for the long-term prospect I have outlined, which we must look to the Government to provide, are strict control of the activities of competing television organisations, and early and comprehensive legislation to reduce licence evasion. On the basis of the necessary assurances, which we have assumed would be forthcoming from the Government, we, for our part, are prepared to accept the implications of a re-assessment of our activities against the background of the realistic needs of the nation's economy.

P.S. This letter was on the point of being sent when Cheminant's letter of 25th February arrived. I think that my letter deals either directly or indirectly with most of the main issues which you raised, but my immediate comments on the three specific points which Cheminant mentions are as follows:

(a) The implications for the BBC of an annual expenditure ceiling would come within our study of the various possible techniques which we could apply in order to achieve the economies of which I have spoken.

(b) The possible transfer of staff out of London, as Sir Hugh Greene mentioned at our meeting, has already been considered. One major scheme had to be deferred because the capital expenditure was immediate and the continuing savings could be realised only after a period of years. The realisation of some of the BBC's capital assets in central London, though no doubt profitable as individual transactions, could not yield disposable sums of a size which could significantly affect the BBC's general financial position. The "decanting" process (that is, the temporary housing of staff in the period between the sale of their present accommodation and the acquisition of property outside London) would be expensive, and we have to remember that our principal saleable asset (the Langham Hotel) involves relatively low outgoings, as compared with other central or outer London properties.

(c) The provision by the BBC to local broadcasting stations of technical and engineering facilities would not in our view yield any substantial profit for the BBC - and certainly not enough to make a significant difference to our finances, either now or in the longer term. Moreover, we should have some doubts about whether the BBC should be seen to be making a profit out of services rendered to another public service, whatever the source of that public service's revenue.
MINISTRY OF SOCIAL SECURITY: DRAFT STATEMENT

Note by the Minister of Pensions and National Insurance

I submit for consideration, as invited by the Cabinet on Tuesday, 1st March (CC(66) 15th Conclusions, Minute 3) a draft statement on the Plan for the Ministry of Social Security.

1st March, 1966

PLAN FOR THE MINISTRY OF SOCIAL SECURITY

DRAFT STATEMENT

With permission, Mr. Speaker, I should like to give the House an outline of the Government's proposals for a scheme to replace National Assistance and which my right hon. Friend the Chancellor of the Duchy of Lancaster foreshadowed on 23rd February.

A Ministry of Social Security will be established bringing together the existing Departments of the Ministry of Pensions and National Insurance and the National Assistance Board. This reorganisation has three main aims. First, the creation of the new Ministry will put an end to the distinction between separate offices for the administration of insurance benefits on the one hand and means-tested benefit on the other. Second, local administration will be developed to provide a more comprehensive and convenient service for the public, and a more effective instrument to ensure that people who have not so far claimed the help to which they are entitled are encouraged to do so. Third, the co-ordination of policy for all social security benefits will be made easier.

A new scheme of non-contributory benefits will replace National Assistance, and will provide a form of guaranteed income for the old, which will normally be reviewed and renewed once a year. Assessment of the new benefits will continue to be related to different income standards for married couples, single householders and other persons, and will allow for rent. Provision will be made for additional payments to meet special individual needs; but the aim will be to make this part of the scheme more readily understandable than the discretionary additions now made, mainly for the elderly, under present arrangements.

Rules for the treatment of resources will be simplified and rationalised. There will be a small "disregard" of all income except National Insurance pensions and benefits, family allowances and maintenance payments. The amount of savings of any kind to be totally disregarded will be increased, so that modest savings will be ignored — no matter how they are invested. A new system will be adopted for capital above this level. It will be assessed as income under a graduated tariff and aggregated with other income for the purpose of the income disregard. This will get rid of the rigid limit of £600 which at present by itself disqualifies the holder entirely from benefit.

The procedure for claiming the new benefit will be made much more flexible for retired people. They will have a choice of sending to the Ministry's local office a written declaration of their circumstances or of being visited at home. If they choose the first, the assessment based on the written declaration will need to be confirmed by an interview, but if desired this could take place at the local office.

There will be less routine visiting; but visiting officers will have more time to ensure that any welfare needs are identified and brought to the notice of the appropriate service.
When an elderly person receiving the new benefit also has a national insurance pension the two will be paid together on a single order book. Those who are not receiving retirement pension will receive payment on an order book of similar appearance to the retirement pension order book. The Government hopes to start a pilot programme for the issue of combined books in a selected Region soon after the new scheme begins.

The new Ministry will send to everyone claiming a national insurance retirement pension details of the new benefit. Arrangements will be introduced as soon as possible to make personal contact with every national insurance pensioner who, on retirement, does not claim the new benefit, unless he indicates that he does not want it. Similar arrangements will be made to get in touch with married women on widowhood. As this scheme for personal contact develops, further checks will be introduced by arranging to contact pensioners after they have been retired for some years.

Financial help is not the only kind of help that old people fail to seek. A wide range of services to meet health and welfare needs is provided by local authorities but recent investigations have shown that these are too often not known by old people or that the effort to make the necessary contact is beyond them. The Government intend to ensure that all such people are made fully aware both of the new benefit and of the other services available. The contacts made under the arrangements I have described will make a valuable contribution to this object.

In order to preserve flexibility and responsiveness to human needs the new benefits will be administered by an independent corporate body. Within the Ministry of Social Security there will be a Commission of persons chosen for their interest in, and knowledge of, social problems, in whom will be vested the responsibility, under broad regulations made by the Minister, for guiding the new scheme and for individual awards.

The Government hopes to introduce early legislation on these proposals.

When the changes, which have the support of the present National Assistance Board, are complete, the Government believes that they will be seen to preserve what is good in the present scheme while getting rid of those features which create dislike or misconception. Everybody recognises the humanity and efficiency with which the National Assistance scheme is administered and the Government is confident that these qualities will be carried over into the new organisation. But the new Commission and the staff concerned will be enabled to do an even better job. There will no longer be the present sharp distinction between benefits related to contributions and non-contributory benefits. The Government believes that the arrangements I have described will ensure that the elderly will have no hesitation in claiming a benefit, given with dignity, to which they are entitled and which the nation wish them to have.
The Farm Price Review Committee this morning discussed a memorandum by the Agricultural Ministers which is attached as an Annex to this paper. The Agricultural Ministers now believe that there is a very good chance of achieving an agreed settlement with the Farmers' Unions on the basis of an increase in the guarantees of about £28 million compared with the limit set by the Cabinet at its discussion on 8th February (CG(66) 6th Conclusions, Minute 1) of £20 million. It will be necessary to increase the price of milk, beef and cereals beyond the figures contemplated in a settlement at £20 million. The Agricultural Ministers do not believe that there is any chance of a settlement at a figure of significantly less than £28 million since the Farmers' Unions will have difficulty in accepting any settlement which does not fully recoup their additional costs of about £32 million.

2. The discussions with the Farmers' Unions have not thrown up any new factors affecting the merits of a settlement on the basis of £20 million which were not put before Cabinet in my memorandum C(66) 28, and in the Cabinet discussion of that paper on 8th February. The only new factor is that the chances of reaching an agreed settlement with the Farmers' Unions at about £28 million are believed to be better than might have been thought before the discussions started. The only question, therefore, is whether it is worth offering a more generous settlement in order to reach an agreement with the farmers which would enable the agricultural expansion programme envisaged in the National Economic Plan to be started in an atmosphere of co-operation.

3. Any agreed settlement would have to involve an increase of more than 1d a gallon in the price of milk. At the Cabinet meeting on 8th February it was agreed that further consideration should be given to milk prices. The position is as follows. The present retail price of milk is 9½d a pint and this will not be reduced during the summer months. The retail price will have to be raised to 10d some time in the autumn of 1966. If the farmers' price is raised by 1½d a gallon rather than 1d then the retail price will have to be raised to 10d a pint two months earlier. Of the additional payments for milk to the farmer about four-fifths will be met by consumers and one-fifth will fall on the Exchequer through the welfare milk scheme. The effect on the cost of living index of an increase of ¼d a pint is 0.13 points on the Total Index.
4. Some increase in the profitability of cereals will also need to be included in an agreed settlement. Some concern was expressed in the Farm Price Review Committee that this would lead to the termination by our overseas suppliers of the present bilateral minimum price schemes with them. The Agricultural Ministers, however, believe that we should be able to defend our action and that the agreements would not be terminated.

Conclusion

5. I ask my colleagues to decide whether the Agricultural Ministers should be authorised to offer an increase of £28 million in the guarantees to the Farmers' Unions as the basis of an agreed settlement; or whether they should stick to a maximum increase of £20 million on which, as was made clear on 8th February, no agreed settlement is possible. The Farm Price Review Committee can see no prospect of an agreed settlement on a figure less than £28 million.

D. H.

70, Whitehall, S. W. 1.

2nd March, 1966
Memorandum by the Secretary of State for Scotland, the Minister of Agriculture, Fisheries and Food and the Joint Parliamentary Under Secretary of State, Home Office

Introduction

1. We wish to report to our colleagues the present stage reached in the farm price review discussions.

The Farmers’ Case

2. The farmers have pressed their case very strongly and have relied in their arguments on the need for them to have the tools to do their job under the Plan. They have argued that for this purpose the extra short-term and long-term investment per annum required will be about £150 to £180 million, a major part of which will have to be found from farm income. Against this background the farmers have asked for about £50 million, but will clearly be prepared to come below this figure. We on the other hand have gone up to nearly £20 million as authorised. If the negotiations break down at this point, there will not only be no agreed settlement, but also great bitterness and angry disillusion will be caused. The row will be far worse than last year because of the expectations aroused by the selective expansion programme, and the Government’s expressed recognition of the industry’s need to have the physical and financial resources required to carry it out. This disillusion may well be shared by the agricultural workers.

The Overall Settlement

3. The farmers’ leaders sincerely want an agreed settlement provided it is one which they think that they can defend. While they will probably come down considerably from their present figure of about £50 million, they will be very reluctant to come below about £32 million, which is the figure of cost increases this year. A settlement at this level would permit farmers to retain the benefits of their rising productivity for reinvestment, and some increase in their standard of living. It is possible that under great pressure they might come down to a little below £30 million provided they are given long-term assurances on beef and milk.

4. We believe that economically and politically an agreed settlement is desirable if it could be obtained at an overall figure of a little less than £30 million - say £28 million. We want the co-operation of the farmers on the Plan, particularly in getting it launched this year. Under this agriculture has been given a very considerable job of import saving to do, and if we wish this to be achieved, we must provide the industry with enough money to be able to finance the expansion. We also want the co-operation of the farmers on our longer term agricultural policies.
which are embodied in the Agriculture Bill which has been going through the House. The alternative of bitterness and angry disillusion is bound to have considerable repercussions. We do not think that it would be sensible to invite this if it can reasonably be avoided.

5. Any agreed settlement must of course be politically defensible by the Government. We think that one at say £28 million would be wholly defensible bearing in mind that this figure has, in addition to providing personal income, got to cover the interest on the considerable extra investment that farmers have got to make to secure the objectives of the Plan. If allowance were made for an 8 per cent return (the approximate rate at which short-term capital is borrowed) on the increased investment of about £150 to £180 million next year, this would account for about £13 million out of such an award, leaving £15 million as a true comparison with salaries and wages. This represents an increase of about 3½ per cent, which would be fully consistent with the prices and incomes policy.

Commodities

6. Any agreed settlement would only be possible if, within the overall total, we are prepared to give a bit more on cattle, milk, and cereals. We should have to go to 10/- per cwt. on cattle (an extra £2½ million), and to 1½d. (or possibly 1¼d.) per gallon on milk (an extra £2½ to £4½ million), and to give some form of long-term assurance on both commodities. On cereals we should have to give a small increase in profitability of about 3½d. per cwt. on wheat and on barley (an extra £3 million), and to provide about another £1½ million on other commodities. To bring the total back to about £28 million we should have to make extra cuts of about £3½ million elsewhere, possibly by bigger cuts on lime and ploughing grants. Further details about commodities are given in the Appendix.

7. The extra amounts of money proposed for cattle and milk (together with the long-term assurances), are in our view defensible in view of the extra beef production that we want from home sources. The extra small amount on cereals is less defensible, but we think that it would not be an unreasonable thing to do as part of an agreed overall settlement. Such an award would mean continuing the increased price of milk to the consumer for a further one or two months during the year, and would increase the potential Exchequer liability by another £5 or £6 million.

Recommendation

8. In the light of all the circumstances we would recommend to our colleagues that the Cabinet should be invited to revise its previous conclusions and authorise us to go up to £28 million, provided that this would secure an agreed settlement. In putting this proposition to the farmers we would make it clear that in the event of agreement not being reached, the offer of the additional money would be withdrawn and we would stick to the figure of approximately £20 million.
9. We very much hope that our colleagues will agree that such a recommendation can now be put forward by this Committee to the Cabinet.

V.R.
T.F.P.
T.G.T.

Ministry of Agriculture, Fisheries and Food,
London, S.W.1.

1st March, 1966
1. The farmers have been remarkably modest in their requests on cattle and milk compared with what we expected. They have asked for 1d/- per cwt. for cattle, and 1 1/2 d per gallon for milk, but, since beef production is a long-term business, they also want longer term assurances. If they get satisfactory ones, they could possibly be persuaded to come down to 10/- per cwt. for cattle and 1/2 d to 1 1/2 d per gallon for milk. The Cabinet have already authorised 8/- on cattle, so that this would mean an extra £2 1/2 million. In the case of milk, the Cabinet have authorised 1 1/2 d per gallon, and an extra 1 1/2 d to 4 1/2 d would mean another £2 1/2 to £4 1/2 million or, in terms of the retail price, 1/2 d on the pint for one or two extra months.

2. The longer term assurance which the farmers want for cattle is that the price will not, during the next three years, be dropped below this year's level. We have already given such an assurance in relation to the present price, and we do not think that it would be unreasonable to extend it as proposed by the farmers so that it applies to the price as increased this year. It is unlikely that it will cost anything since world beef prices will almost certainly remain firm, and it is in any event improbable that we should want to decrease the prices during the next three years.

3. For milk, the long term assurance they want is that if the dairy herd is increased so as to produce more beef, the consequential extra milk (most of which will go into butter and cheese which give a far lower return than sales for liquid consumption) will not be allowed to penalise producers by depressing the pool price. They are, therefore, asking for a Government assurance that the milk fund will be financially reimbursed by one means or another so as to cover the extra milk produced (subject to a maximum annual figure) in the interests of beef production. This could cost up to a maximum of another 1 1/2 d per gallon per year and would be really a payment for the extra beef that we want produced by the dairy herd. We think that against the background of the Plan, those long-term assurances are reasonable in principle. The exact form of such assurances needs more detailed consideration.

4. Cereals raises greater difficulties. Here the farmers have asked for the restoration of the price cuts made last year. This would certainly put at risk our bilateral cereals agreements with the United States, Canada, Australia, and the Argentine, and could have damaging repercussions on the prospects for the Kennedy Round. But the farmers will certainly not agree any settlement unless we are prepared to accept some increase in profitability for wheat and barley. The most that we think is possible would be to make an increase in the standard quantity of say 800,000 tons, without cutting back the guaranteed prices in compensation. This could give cereals growers an effective increase of about 3 1/2 d per cwt. on both wheat and barley (about £3 million in all), but the actual guaranteed prices would remain unchanged. This would have to be defended to our overseas suppliers by pointing to the proposed cut in the

/sowing
ploughing grant valued at about £3.7 million (or higher with a bigger cut), about three-quarters of which benefits cereal growers. While there would be some risk to our bilateral cereals agreements, we believe that such a settlement would be defensible, and that the agreements would not be terminated.

5. As regards the other commodities, a small addition of another 2½d per ton will be necessary on potatoes, costing a further £500,000, as an insurance policy so as to try and reduce the shortage we are likely to have this year, and prevent retail prices rising too high. There will also need to be a small award of about 2/- a ton on sugar beet, costing another £700,000, to cover the greatly increased costs due to bad weather.
CABINET

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

Note by the Lord President of the Council

I circulate herewith a draft of The Queen's Speech on the Prorogation of Parliament.

H.B.

Privy Council Office, S.W.1.

4th March, 1966
ANNEX

DRAFT OF THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My husband and I would like to thank the many peoples we visited in our delightful Caribbean tour for the warmth of their hospitality.

2. My Ministers have participated fully in the work of the United Nations and its specialised agencies. My Government have improved and increased financial and technical aid to developing countries and have joined in international efforts to relieve the current food shortage in India.

3. My Ministers have constantly sought means of bringing peace to Vietnam, and stability to South-East Asia.

4. In consultation with the Government of British Guiana My Government have concluded an Agreement with Venezuela which will promote good relations between Venezuela and the future independent Guyana.

5. My Ministers have sought to make progress towards disarmament, and in particular an international treaty to prevent the spread of nuclear weapons.

6. They have continued to support the North Atlantic Treaty Organisation and other alliances for collective defence, and to work for closer interdependence in the nuclear resources of the Atlantic alliance.

7. My Ministers have worked for closer cooperation between the European Free Trade Association and the European Economic Community. They have developed personal contacts with the leaders of the Soviet Union and other countries of Eastern Europe.

8. They have concluded an Agreement establishing a Free Trade area with the Republic of Ireland. They have actively promoted the tariff negotiations under the General Agreement on Tariffs and Trade, and the development of trade within the Commonwealth.

9. My Government have vigorously pursued their policy of bringing the illegal regime in Rhodesia to an end so that a peaceful and lasting constitutional settlement, acceptable to the Rhodesian people as a whole, can be achieved. This policy received general endorsement at the Meeting of Commonwealth Prime Ministers at Lagos in January.

10. Progress has been made with negotiations on constitutional advances for several of our remaining dependent territories.
My Government have announced their plans for meeting the nation's defence needs in the next decade at lower cost, and for reorganising the Army Reserves.

MEMBERS OF THE HOUSE OF COMMONS

I thank you for the provision you have made for the public services.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

My Government have been carrying through with success policies designed to strengthen sterling and restore the balance of payments. The country's export trade is now greater than ever before. They have put forward proposals for a more positive system of investment incentives designed to stimulate those sectors of the economy which contribute most directly to the balance of payments and to promote expansion in the under-developed regions of Britain. They have made proposals for the establishment of an Industrial Reorganisation Corporation and have continued to encourage the use of advanced technology in industry.

My Government have published plans for the expansion of the Scottish economy. The construction of the Prototype Fast Reactor in Caithness will do much to sustain the economy in the Highlands.

My Government have strongly encouraged the development of industrial training and have announced improved arrangements for training workers in the development districts.

My Government have developed, in consultation with management and unions, their policy for productivity, prices and incomes. They have introduced a system for advance notification of increases in prices and incomes and put forward proposals for legislation to strengthen it.

My Government have introduced proposals for the establishment of a Meat and Livestock Commission and for the longer term development of agriculture. They have announced arrangements to provide investment incentives for agriculture, horticulture and fisheries.

An Act has been passed to assist the finances of the coal industry and the redeployment of its man-power.

My Government have put forward proposals for a revised statutory dock labour scheme to ensure regular employment for dock workers and agreement has been reached upon it with the industry.

* indicates Bill not yet passed.
20. Proposals have been put forward for the establishment of a Land Commission to acquire land for the community and to recover part of the development value realised in land transactions.

21. An Act has been passed providing for rate rebates for domestic occupiers of limited means and entitling householders to pay rates by instalments. A scheme has been put forward for progressively increasing Exchequer grants to local authorities to reduce the annual increase in rates on house property.

22. My Ministers have announced an enlarged housing programme and a substantial increase in housing subsidies and have further developed their plans to extend owner occupation by bringing mortgages within the reach of more families. Proposals have been made for legislation to give greater security to occupying leaseholders of residential property with an original long lease and to enable them to acquire the freehold.

23. My Government have proposed measures to protect consumers by prohibiting misdescriptions of goods and services and to confer power to require that consumers are given information about the goods they buy.

24. Provision has been made for supplementary national insurance benefits, related to earnings, to be paid in the early stages of sickness, unemployment and widowhood, and for additional benefits to be paid to certain war and industrially disabled pensioners. Plans have been worked out for a Ministry of Social Security and a new scheme of benefits to replace National Assistance. A reciprocal agreement with the Government of the Republic of Ireland on social security has been signed.

25. In consultation with the medical profession, My Ministers have drawn up proposals for reshaping the family doctor service and legislation needed to implement them has been passed.

26. A Public Schools Commission has been set up to advise on the best way of integrating the public schools with the State system of education.

27. Provision has been made for a pension scheme for teachers' widows in England and Wales.

28. An Act has been passed to facilitate revision of the constitution of the older Scottish universities and to provide for separate universities at St. Andrews and Aberdeen.

*\[\] indicates Bill not yet passed.
29. My Government have announced an increase in financial support for the arts. They have put forward proposals for protecting the beauty of the countryside and promoting its enjoyment.

30. Legislative proposals have been put before you to promote safety on the roads.

31. Proposals have been put forward for reform in the treatment of adult offenders.

32. Progress has been made in the systematic reform of the law.

33. My Government have announced that decimal currency will be introduced in 1971.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may attend you.