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129 - Public Expenditure: Education. Memorandum by the Secretary of State for Education and Science

130 - Public Expenditure: Proposed Adjustments: Aid Programme. Memorandum by the Minister of Overseas Development.

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132 - Family Endowment. Memorandum by the Minister of Social Security

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134 - The Oil Position. Note by the Minister of Power

135 - Family Endowment. Note by the Minister without Portfolio

136 - The Oil Supply Situation. Memorandum by the Minister of Power

137 - Public Sector Prices. Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

138 - Railway Policy: Main Report of Joint Steering Group. Memorandum by the Minister of Transport

139 - Public Sector Prices. Memorandum by the Minister of Power

140 - Waterways Policy: Use of the British Waterways Board's Waterways for Recreation and Amenity. Memorandum by the Minister of Transport
CABINET

DEFENCE AND THE BALANCE OF PAYMENTS

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, as background information for the Cabinet in relation to C(67) 117, the attached memorandum by the Secretary of State for Defence which has been considered by the Defence and Oversea Policy Committee.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

4th July, 1967
DEFENCE AND THE BALANCE OF PAYMENTS

Memorandum by the Secretary of State for Defence

In discussion of public expenditure, defence - and particularly the stationing of forces overseas - has often been singled out for attack as an activity which not only uses a large amount of national resources, but also imposes a heavy burden - approaching £300M a year - on the balance of payments. I have felt for some time that this was a distorted picture and I attach a note which explains why the burden in the present financial year will be no more than about £100M - an amount which will be almost balanced by receipts of foreign exchange from the sales of arms.

2. This conclusion results from making allowance for all the offsets which we have been able to achieve. It shows the importance of securing satisfactory offset arrangements for foreign exchange expenditure in Germany and on the purchase of equipment. It also shows the value of foreign exchange earnings from the export of arms.

3. It does not provide an argument against reducing defence expenditure to the minimum level consistent with the tasks which the Services are required to perform. But, in my view, it strongly suggests that there is no great difference between defence and other forms of public expenditure in the burden they place on the balance of payments.

4. The note also shows the dangers of thinking in terms of the gross expenditure of foreign exchange on stationing costs. It points out, for example, that the figure we have used for the foreign exchange cost of stationing forces in Malta overstates by more than two and a half times the burden on the balance of payments.

5. I recognise that these conclusions must be used with discretion, especially since we must do nothing to make more difficult the offset agreements which contribute to the result. But I would ask my colleagues to take note of them as an important contribution to our current discussions of defence policy, and of government expenditure in relation to the balance of payments.

Ministry of Defence,

S.'/H.

28th June, 1967.
It is generally believed that the defence programme imposes a heavy burden on the balance of payments. The figures which have normally been used to illustrate this show the following picture for 1967/68:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange cost of stationing forces overseas</td>
<td>256</td>
</tr>
<tr>
<td>Cost of buying equipment from abroad</td>
<td>74</td>
</tr>
<tr>
<td>Offset by net receipts from headquarters transactions (e.g. Government sales of equipment, R &amp; D levies)</td>
<td>61</td>
</tr>
<tr>
<td>Net foreign exchange cost</td>
<td>269</td>
</tr>
</tbody>
</table>

The conclusion drawn from these figures is that defence is costing the balance of payments £269m.

2. These figures are misleading because they do not allow for a number of offsets; the net burden of defence on the balance of payments is very much smaller. The object of this note is to assess, so far as this can be done, what the figures should be.

Stationing Costs

3. Stationing costs have hitherto consisted of:
   a. our forces' net drawings in overseas currency through paymasters;
   b. the overseas currency cost of oil for the forces;
   c. remittances to pensioners e.g. in Nepal;
   d. the cost of the joint agreement with the Australians on ranges and facilities.

This definition was adopted because it was useful to the Treasury in preparing the total balance of payments figures. But it does not provide the most relevant basis for decisions on deployment.

4. The main cost basis for decision on deployments, as on everything else, must be the effect on the defence budget. If, in addition to this, foreign exchange cost has to be considered, the relevant figure is not the gross expenditure of foreign exchange, but the extra foreign exchange costs of deploying forces abroad as compared with having the same forces at home. It is true that the forces at home are net consumers of foreign exchange, like every other inhabitant of this country who does not directly contribute to exports. But this element in the foreign exchange cost of the forces can best be regarded as subsumed in the budgetary cost criterion; we did not,
for example, assess the foreign exchange costs of collecting
and distributing S.T.

5. To measure the extra foreign exchange cost of station-
ing forces overseas instead of at home we have to make four
adjustments to the £256M in paragraph 1 above. First,
some minor changes are needed in the division between
stationing costs and headquarters payments so that the
stationing costs total allows, for example, for receipts
from the Hong Kong Government and the proceeds of disposals
in Germany, but does not include Ministry of Technology
payments to Australia for the provision of ranges and
facilities or the notional foreign exchange costs of oil
(see paragraph 12). As a result the £256M becomes £233M.

Next two calculated reductions are required:

a. we must deduct an allowance for the lower U.K.
import bill because 320,000 Service personnel
and their dependants are overseas - we call
this the "home saving" element;

b. we must also allow for the higher U.K. exports
due to the expenditure of the forces abroad.

Appendices I and II show how these allowances have been
calculated. The following table shows their effect on
the conventional stationing cost figures:

<table>
<thead>
<tr>
<th>Area</th>
<th>German added</th>
<th>&quot;Home Saving&quot;</th>
<th>Exports Generated</th>
<th>Net Figure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>80</td>
<td>12.0</td>
<td>1.2</td>
<td>66.8</td>
</tr>
<tr>
<td>Gibraltar</td>
<td>6</td>
<td>0.8</td>
<td>3.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Malta</td>
<td>10.5</td>
<td>1.6</td>
<td>4.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Cyprus</td>
<td>15.5</td>
<td>2.4</td>
<td>3.2</td>
<td>9.9</td>
</tr>
<tr>
<td>Libya</td>
<td>2</td>
<td>0.3</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Aden</td>
<td>11</td>
<td>1.9</td>
<td>2.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Persian Gulf</td>
<td>12</td>
<td>2.2</td>
<td>2.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>17.5</td>
<td>3.0</td>
<td>1.4</td>
<td>13.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>56.5</td>
<td>9.1</td>
<td>10.2</td>
<td>37.2</td>
</tr>
<tr>
<td>Nepal</td>
<td>2.5</td>
<td>0.1</td>
<td>-</td>
<td>2.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>6.5</td>
<td>1.8</td>
<td>2.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Rest of W. Europe</td>
<td>4.5</td>
<td>0.6</td>
<td>-</td>
<td>3.9</td>
</tr>
<tr>
<td>Other</td>
<td>8.5</td>
<td>0.8</td>
<td>-</td>
<td>7.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>233.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>165.7</td>
</tr>
</tbody>
</table>

*This information reflects the position as seen
last January; revised forecasts are at present
being made.*
6. The table shows that the effect of these adjustments is not only to reduce the total stationing costs to £166M, but also to alter the relative burden from stationing forces in different overseas areas. It shows, for example, that the figure we have been using for the foreign exchange cost of stationing forces in Malta overstates by more than two and a half times the burden on the balance of payments.

7. The fourth adjustment required is to allow for certain offsets to stationing costs. These are:
   a. receipts under the German offset and related arrangements which are expected to yield £69M in 1967/68 (say £56M net after allowing for import content);
   b. receipts of £61M from disposals abroad by the Ministry of Defence in countries other than Germany (this is really an adjustment of the type mentioned in paragraph 4, but as it cannot easily be allocated to the particular areas concerned it is included here).

8. The result, after all these adjustments are made, is that the total net foreign exchange cost of stationing forces abroad instead of at home will be about £100M in 1967/68, instead of the conventional figure hitherto used for stationing costs — £256M. There may be other relatively minor additions and subtractions which could be made, but the adjustments described above have been calculated on a conservative basis: all allowance for any other factors is unlikely to affect the conclusion that a figure of £100M, and not £256M, is of the right order of magnitude.

Equipment Costs

9. The foreign exchange cost of equipment bought from abroad is estimated at £74M in 1967/68. Against this can be set:
   a. receipts from those U.S. forces stationed in this country which provide the offset to the Hercules/Phantom/Polaris agreements — £40M, including receipts on Government account;
   b. private arms sales under the F.111 offset agreement — about £5M;
   c. the value of new defence equipment sold on Government account — £35M.

10. The net effect is that the expenditure of £74M on equipment is offset by receipts of about £30M, a surplus of about £5M.

11. Under M.I.0 definitions, however, receipts from sales of defence equipment by industry are included as an offset in calculating the foreign exchange burden of defence. These are expected to amount to some £100M in 1967/68, of which only £5M is included in paragraph 9b.

/Headquarters
Headquarters net receipts

12. In order to give a clearer picture of the true burden of stationing costs and equipment costs, a large part of the receipts has been re-allocated to these headings, as explained above. In addition the payment by the Ministry of Technology for the use of facilities in Australia, hitherto treated as a stationing cost, is here treated as a headquarters payment. The result is that the net receipts of £61M become a net expenditure of £3M. The notional cost of £10M for the foreign exchange cost of oil for the forces has been omitted in accordance with the line taken in paragraph 4.

Conclusions

13. The conclusions from this analysis are that in 1967/68:

a. the net level of stationing costs is about £100M (paragraph 8);

b. on equipment we are in credit (paragraph 9);

c. on other Government transactions there is a debit of £3M (paragraph 12);

d. on the basis of the NATO definitions of equipment transactions the net debit on a., b. and c. is almost balanced by the receipts from other sales of defence equipment by industry (paragraph 11).
The table assesses the minimum saving to the direct UK import bill resulting from the fact that some 320,000 members of the forces and their dependants are stationed overseas at the expense of the Defence Budget.

2. The figures are calculated on the basis that 20% of the increase in total final spending on the U.K. economy is reflected in increased imports. This is broadly the formula contained in August 1965 edition of Economic Review in an article entitled "Forecasting Imports" prepared by W.A.H. Godley and J.R. Shepherd of H.M. Treasury.

3. The figures given in column (1) are stationing costs net of the pay of locally engaged civilians. It might be argued that this pay should not be deducted, because corresponding services would have to be purchased in the UK if the forces were repatriated, but the deduction has been made in order to reflect the fact that in general the maintenance of living standards overseas is somewhat more costly than in this country.

4. This assessment of the theoretical effect of repatriation on UK imports takes account of "first round" effects on the UK import bill only. There would in practice be a multiplier effect consequent on this direct increase in consumer spending, and to this extent the table below understates the net effect on the UK import bill. On the other hand it could be argued that allowance should be made for the effect of increased imports on the demand for our exports, but this effect is likely to be relatively small.

<table>
<thead>
<tr>
<th></th>
<th>(1) Stationing Costs less pay of overseas Civilians</th>
<th>(2) Estimated increase to UK imports generated by rise in total final spending</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ M</td>
<td>£ M</td>
</tr>
<tr>
<td>Germany</td>
<td>60</td>
<td>12.0</td>
</tr>
<tr>
<td>Gibraltar</td>
<td>4.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Libya</td>
<td>1.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Malta</td>
<td>8</td>
<td>1.6</td>
</tr>
<tr>
<td>Cyprus</td>
<td>12.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Aden</td>
<td>9.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>44.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>9.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Persian Gulf</td>
<td>10.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Rest of S. Europe</td>
<td>3</td>
<td>0.5</td>
</tr>
<tr>
<td>Nepal</td>
<td>2.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>4.1</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>139.1</strong></td>
<td><strong>37.0</strong></td>
</tr>
</tbody>
</table>
APPENDIX II

The table in paragraph 3 assesses the gain to UK exports which accrues from our overseas military expenditure.

2. The figures are based on the knowledge that the countries concerned have a propensity to spend a relatively constant percentage of their GNP on goods of UK origin, and on the assumption that the increase in GNP generated by the British military presence causes imports from the UK to rise in the same proportion.

3. It also takes account of the multiplier effect whereby a sum of money spent on an economy gives rise to a sequence of transactions, and thus generates an increase in GNP which is not purely an arithmetical addition. Studies of the size of the multiplier factor in a few of our overseas theatres have produced varying figures, but for the purpose of the calculation a modest 1.5 has been taken throughout in order to avoid any possible overstatement of the net effect on UK exports.

<table>
<thead>
<tr>
<th>Country</th>
<th>UK Exports as % of G.N.P.</th>
<th>UK overseas expenditure 1967/68</th>
<th>Amount of GNP generated in host economy</th>
<th>Minimum gain to UK exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1%</td>
<td>80</td>
<td>120</td>
<td>1.2</td>
</tr>
<tr>
<td>Gibraltar</td>
<td>35%</td>
<td>6</td>
<td>9</td>
<td>3.1</td>
</tr>
<tr>
<td>Libya</td>
<td>17%</td>
<td>2</td>
<td>3</td>
<td>0.5</td>
</tr>
<tr>
<td>Malta</td>
<td>30%</td>
<td>10.5</td>
<td>16</td>
<td>4.8</td>
</tr>
<tr>
<td>Cyprus</td>
<td>14%</td>
<td>15.5</td>
<td>23</td>
<td>3.2</td>
</tr>
<tr>
<td>Aden</td>
<td>14%</td>
<td>11</td>
<td>16.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Singapore</td>
<td>12%</td>
<td>56.5</td>
<td>85</td>
<td>10.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.5%</td>
<td>17.5</td>
<td>26</td>
<td>1.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>12%</td>
<td>11</td>
<td>16.5</td>
<td>2.0</td>
</tr>
</tbody>
</table>

4. This table leaves out of account, for the reasons given, the following areas:

- Persian Gulf (Expenditure £12M) - no reliable GNP figure available
- Nepal (Expenditure £22.5M) - no reliable GNP figure, no stable pattern of UK exports
- Rest of West (Expenditure £24.5M) - GNP figure would be meaningless
- Other areas (Expenditure £25M) - GNP figure would be meaningless

/The only
The only one of those areas for which a broad assessment can be made is the Persian Gulf, for which, on the analogy of Aden, a tentative figure of £2M has been included. Although there are undoubtedly similar exports generated by the remaining expenditure (possibly with the exception of that in Nepal) no claims have been included in this paper in view of the difficulty of assessing a figure.

5. There are, in fact, several reasons why exports which owe their origin to UK overseas expenditure are probably higher than the figures shown in the table.

a. It is likely that UK personnel stationed overseas have a bias towards UK goods.

b. The fact that certain commodities sold on the local economies are stocked in the main to satisfy the demand of UK personnel gives rise to the possibility that local demand for such commodities would not have revealed itself without the presence of the forces demand.

c. The multiplier factor is probably understated in some cases.

6. It is worth noting that the factors mentioned in a. and b. above would, of course, operate in reverse in the event of withdrawals, thereby depressing UK exports by an amount which would be greater than the present gain shown in the table.

7. It could be argued hypothetically that the Governments of the countries affected might well direct new public spending to offset the decline in GNP and thus, as a by-product, lessen the decline in UK exports. Though such an assumption might, in certain political and economic conditions, be valid for an advanced economy such as that of Germany it is certainly not true for the bulk of the expenditure here considered.
CABINET

ROAD HAULAGE POLICY: PROPOSALS FOR THE REVISION OF THE CARRIERS' LICENSING SYSTEM

Memorandum by the Minister of Transport

Introduction and Summary

In "Time for Decision" the Government undertook "to co-ordinate road and rail to use existing resources to best effect". In the White Paper on Transport Policy (Cmd. 3057, paragraph 99) published in July, 1966, the Government accepted the view that the present carriers' licensing system for goods vehicles was wasteful, ineffective and unduly complicated, but held that instead of abolishing licensing altogether it was necessary to devise a licensing system which would be "an effective instrument of a modern, national freight policy". This paper describes my proposals.

Discussion at the Economic Policy Committee revealed that some of my colleagues are concerned about certain features which are likely to be controversial. Hence this reference to the Cabinet.

2. I am proposing two main changes:

(i) To free altogether from carrier licensing the 900,000 goods vehicles under 30 cwt. unladen weight, and to apply to the remaining 600,000 a form of licensing (quality licensing) designed to improve maintenance and operating standards for the protection of public safety.

(ii) To free from all except quality licensing a further 140,000 public haulage vehicles (including all those under 5 tons and a few over 5 tons) which are at present required to hold 'A' or 'B' licences, but to apply to the remaining 40,000 public haulage vehicles and to 30,000 own account vehicles a new system of quantity control which will produce a more rational economic division of traffic between road and rail.

3. The White Paper (paragraph 98) stated that decisions about the recommendations of the Geddes Committee on the licensing system should await the outcome of current research into the relative costs of carrying goods by road and rail. Good progress has been made with this research and it is already clear that its findings will not conflict with my proposals and in particular respects will validate them. It is therefore not necessary to await completion of this research, which will take another year at least, before adapting the licensing system as I propose to speed up the transfer of a comparatively small amount of traffic from road to rail where there is spare capacity that can profitably be used to carry it, with a consequential reduction of some £6 million in the deficit. I have set out in greater detail at Annex A the relationship between this research into transport costs and my proposals.
The Existing Carriers' Licensing System

4. Licensing of goods vehicles was initiated by the Road and Rail Traffic Act, 1933, and the present system which is described more fully in Annex B is substantially the same as it was then. Its purposes were to regulate competition within the road haulage industry, in view of depressed conditions arising from rapid unregulated expansion; to protect the safety of the public and of the drivers by providing sanctions against operators of unsafe lorries; and to give some protection to the railways by allowing them to object, along with other road hauliers, to the grant of licences to public haulage operators. But the system no longer effectively achieves these objectives, and the objectives themselves need to be reconsidered in the light of modern needs.

The Objectives of Licensing

5. There is no need now for the regulation of competition between public hauliers. Road haulage is a strong and vigorous industry and likely to remain so. It has not suffered any noticeable economic damage from the ineffectiveness of the present system and there is no sense in retaining a control which no longer has any meaning in practice.

6. But the protection of public safety by the promotion of high standards of maintenance and operation within the industry is even more important now that it was in 1933. Roads are more crowded, vehicles more powerful, and the incentives to break the law for financial gain remain. Yet the existing system allows no enquiries into the suitability and competence of intending operators, and its disciplinary powers over existing operators have proved totally inadequate. We must change this situation radically.

7. I have been under considerable pressure from the unions to renationalise the public haulage industry. One of their main arguments is that the industry is dominated by the small operator, whose standards of operation are substantially lower than those of operators in the publicly owned sector, who are as a consequence at a competitive disadvantage. No less than 50 per cent of public hauliers operate only one vehicle and 85 per cent operate five vehicles or less. I have resisted renationalisation of the whole industry because I see serious disadvantages in establishing a freight transport monopoly. Moreover, as we saw after 1947, no renationalisation would be effective which left out the larger own-account fleets. I have maintained that the problem of low standards in certain sections of the industry could and should be dealt with by licensing backed by more vigorous enforcement.

8. There is, I believe, a second valid objective of a licensing system. It is a primary aim of my freight policy that the fullest economic use should be made of the basic railway network. The railways' investment in liner trains and bulk delivery services is giving them modern facilities for carrying long haul and bulk traffics more efficiently and cheaply in many cases than road transport. On these services the railways can offer competitive charges and still make profits. In the main, the new services will sell themselves on their merits. But the understandable reluctance of some consignors to entrust their goods to the railway is likely to delay this natural switch.
to rail. Meantime spare rail capacity will be wasted. If this "reluctant" traffic can be induced to switch to rail at an earlier date, without any additional costs being imposed on industry, there will be a clear gain to the economy in terms of optimum use of transport resources, reduction of the railways' deficit and less congestion on the roads. I, therefore, believe we should retain quantity control, but in a new and more relevant form in which it will be limited to that part of the road haulage industry where it can contribute to switching suitable traffic to rail.

Proposals for a New System

9. I propose, as a first step, to exempt from all carriers' licensing the 900,000 light vehicles of less than 30 cwt, unladen weight - nearly all operated on own-account and mostly light delivery vans and tradesmen's vehicles used for local runs only. There are no economic grounds for subjecting them to quantity control. As regards quality control, most of these vehicles are operated in towns and, though their accident rate is high, the accidents in which they are involved tend to be less serious than those involving heavier vehicles. Thus, the number of deaths from fatal accidents per vehicle-mile is 40 per cent higher for lorries over 30 cwt. than for those below. Moreover, vehicles under 30 cwt. will still be subject to the same annual tests as private cars and also at any time to roadside spot-checking by my examiners. So we have a quality check on these vehicles. I have, therefore, decided to concentrate the controls of the new system on the 600,000 heavier goods vehicles over 30 cwt. rather than dissipate enforcement effort over the whole range of 1.5 million goods vehicles.

Quality Controls

10. I propose that the basic instrument of control in future should be a new type of carrier's licence. Such a licence would be granted only if:

(a) The Licensing Authority were satisfied that the applicant intended and was able to provide adequate maintenance facilities for his vehicles, to keep proper control over their loads and to arrange satisfactory checks on the hours worked by his drivers.

(b) The Licensing Authority were satisfied that the applicant's financial resources were commensurate with his proposed scale of operation and that he had sufficient business in prospect to maintain reasonable financial stability.

(c) The applicant held a new type of personal licence (a "transport manager's licence"), entitling him to manage a transport undertaking, or employed the holder of such a licence in a position of responsibility. The licence would be revocable for malpractice.

11. These criteria are designed primarily to uphold proper standards of conduct and operation in the industry and in particular to protect public safety. Power to investigate the applicant's financial prospects is necessary because the most common and immediate reaction of hauliers in financial difficulties is to neglect maintenance, overloaded vehicles and overwork their drivers. We should not continue to tolerate a state of affairs in which anyone can buy a second-hand lorry on hire purchase for a few pounds deposit and a prospect of a few cut-rate contracts, neglect its maintenance and so become a menace on the roads.
12. Some of my colleagues on the Economic Policy Committee expressed doubts about the feasibility of assessing an applicant's financial resources and prospective business. I have discussed this again with some of my licensing authorities, and I am convinced that the difficulties are exaggerated. The majority of applicants will have been operating goods vehicles for a number of years and the licensing authorities will have a great deal of information to assist them in their assessments and to pinpoint bad risks. Under the present system they seek to satisfy themselves about an applicant's reliability and efficiency, and they see no serious difficulty in making this financial assessment, which would enable them to deal more effectively with an operator whose past record in caring for his vehicles and observing the other requirements of road operation has been unsatisfactory. It is all the more important that such enquiries should be made since otherwise we should be opening the door for unscrupulous operators out for quick profits to put unsafe vehicles on the road, including, possibly, some who had been refused a licence under the present system. This would go undetected until the vehicle either came up for its annual test or was caught at a random roadside test. But in between annual tests the vehicle can do a considerable mileage, while the chances of its being examined in a random roadside test are about once every five years.

13. I propose, however, to make these financial tests discretionary and not mandatory and leave it to the licensing authority to decide when to apply them. There will be a number of cases in which they will be clearly unnecessary. There will be others in which it is not clear whether the applicant has adequate financial resources and the licensing authority will then need to ask him for information in this point. If it then transpires that the applicant is a man of straw, the licensing authority can reject the application. In this way the more obviously bad risks can be eliminated from the start. Where the licensing authority does not feel justified in rejecting an application outright, he will be able at his discretion to grant what would in effect be a probationary licence of short duration. Such a licence would be given to many applicants new to the industry; it might also be granted, in a few cases, to an operator already in the business whom the licensing authority has reason to suspect. Otherwise licences will be given for a longer period. (Another remedy open to the licensing authority in doubtful cases would be to licence a smaller number of vehicles than that applied for.)

14. It has been suggested as an alternative that quality licences should be available on demand but be subject to revocation for subsequent infringements, on the ground in particular that it would require less manpower than my proposals. Apart, however, from the safety objectives to this alternative it would involve a heavy increase in the number of enforcement staff. Nor will my proposals as a whole involve any substantial increase in the numbers now administering carrier licensing since the increase in enforcement and executive staff for quality licensing will be largely offset by the savings from the exemption of a million vehicles from licensing. There will be a need...
for a higher proportion of senior staff in the Traffic Areas, but the extra cost of this will be met from the charges made for carriers' licences since I intend that the system shall continue to be self-financing. The staffing implications of my proposals have been discussed with the Treasury.

15. Once a licence has been issued, there will be two lines of attack against a defaulting operator. First, whenever there has been a breach of the law relating to vehicle operation the licensing authority will be required to consider suspending or cancelling the licence discs of the operator's individual lorries. Second, if an operator's offences are persistent or are of a reckless character or likely to cause particular danger to the public, he will be liable to have his operator's licence suspended or cancelled. In either case the position of the holder of the Transport Manager's licence in that organisation will be called in question. To escape revocation or suspension of his own licence he will have to show that he could not be held responsible for the state of affairs in the company. This will give him a powerful incentive to resist any pressure by his employers to break safety rules. There will, of course, have to be provision for appeals; I am still considering the form of these.

16. Licences of this kind, which involve prior examination of financial resources, are already required in Germany and the Netherlands, and have recently been instituted in France. My officials have discussed with the Germans the working of their system, which is closely similar to my own proposals, and have been told that the financial tests present no serious difficulty, and are of value in securing safe operation. It is likely that licences on a similar pattern will eventually be introduced throughout the European Economic Community (EEC). I know that in this country their introduction would be welcomed by both sides of the industry and I am confident that they would make a worth while contribution to safety.

Quantity Controls

17. Under the present system of carrier licensing an applicant for a haulier's licence has at least in theory to prove a need for his proposed service. In practice he has little difficulty in producing customers to support his case and the system has become a farce. The Trades Union Congress (TUC) and British Railways have pressed for a system which will effectively support a national freight policy. The TUC indeed have gone further and asked that all licensing shall be delegated to a reconstituted British Transport Commission. I cannot accept this, but I do accept the need for radical change. British Railways have represented that there is a quantity of traffic now moving by road which would be eminently suitable for carriage by freightliners and assess the quantity at some 30 million tons per annum. They believe that the new service will attract on merit one-half of this traffic but have urged that a licensing system is essential to divert the remainder from road haulage. I consider that this justifies a very limited form of quantity licensing designed to divert this traffic to the freightliners. Licensing will be needed to overcome many consignors' conservatism and their prejudice against the railways derived from pre-freightliner
experience. It will also be needed to divert traffic in marginal cases. There is a large amount of bulk traffic such as coal and mineral ores moving by road in circumstances in which it could, without detriment to the consignor and with benefit to the public interest and to the overall rail deficit, be moved by rail.

18. I propose, therefore, to apply a limited form of quantity control which will extend to all lorries, including those of own account operators, of more than five tons unladen weight engaged either (a) in hauls of over 100 miles or (b) in carrying certain bulk traffics (e.g. coal) over 25 miles.

19. My reasons for adopting a limit of five tons unladen weight are:

(a) Lorries over five tons weight carry about half the tonnage and account for half the ton-mileage moving by road over 100 miles and thus include the very traffic which would be suitable for the freightliner service. They also carry much of the bulk loads moving over shorter distances.

(b) There are in all 100,000 vehicles of five tons or more (including 60,000 own-account vehicles). The exclusion of those engaged on journeys of under 100 miles, other than those carrying certain bulk loads, will bring the total to 70,000 as compared with 180,000 public haulage vehicles now subject to licensing (see table at Annex C). This will enable my enforcement staff to concentrate their attention on a much smaller number of easily identified vehicles.

20. Applications for a quantity licence to operate one of these 70,000 lorries will be open to objection by railway operators. The system will, therefore, be biased in favour of rail transport but for the reasons set out in paragraph 5 above there is no point in allowing objections being raised by other operators. In most cases the objector will be the freightliner division of the National Freight Organisation (NFO), since the effective alternative to road will be provided by the freightliner services. Occasionally the railways might object to applications for bulk carriage of coal and similar traffic. The sole grounds for objection will be that rail can provide a service which overall is as satisfactory as that of the applicant, taking into account speed, reliability and cost; where such an objection is made the applicant will have to satisfy the licensing authority that it is invalid. Unlike the present system, consignors' preferences or prejudices will not be taken into account unless they are substantiated with rational evidence in these terms. There will be provision for appeals to an independent tribunal.

21. The extension of quantity licensing to own-account transport is new and will give rise to controversy. Own-account operators value their freedom to operate lorries without restriction for the carriage of their own goods. For the most part they will retain this freedom, subject only to the new quality controls which they will, I am sure, find acceptable. But I do not think it is right to exempt them altogether from the new quantity controls. A significant proportion (at least one-third) of the traffic which is potentially suitable for rail now goes in own-account
lorries; the TUC have strongly represented to me the need for quantity control of own-account transport, as also have British Railways; and to confine quantity licensing to public hauliers would be likely to cause diversion of the traffic previously carried by hauliers, not to rail, but to new or enlarged own-account fleets.

22. In considering contested applications licensing authorities will need for comparison competing road and rail rates which reflect the full costs of each service. This will not be difficult in the case of public road haulage, nor for the NFO freightliner services, since the arrangements for the financial structure of the NFO will ensure that no element of subsidy appears in their quoted rates. But since no rates will be available in own-account cases, the comparison will have to be between rail rates and own-account costs. Many own-account operators will be quick to see the economic benefits of rail trunk haulage (and a number have already made the switch to freightliners), but there are many who do not even know what it costs them to run their own vehicles or are content to subsidise their lorry fleets from their manufacturing profits. This clearly leads to an unjustifiable waste of national resources. Undoubtedly one of the effects of applying quantity licensing to own-account operators will be to stimulate them to examine their transport costs, and to compare them with rail costs, with beneficial effects on national productivity.

Effect of Quantity Licensing on Established Fleets

23. Several of my colleagues suggested that organisations with large established fleets might suffer economic loss if the quantity licensing system required transfer of traffic carried by their vehicles to rail. There will be cases where quantity licensing could make severe inroads into individual fleets. But there are two mitigating factors. The owners of these fleets will have plenty of notice that quantity licensing is likely to affect them, not only because there will be at least nine months between the publication of my proposals in a White Paper and enactment of the Transport Bill but also because the introduction of the new controls will have to be spaced over a period of at least two to three years as existing licences fall in. Also the licensing authorities will have to be given discretion to allow the continued operation of particular licences for a limited period or to a limited extent in individual cases where immediate rejection would cause undue hardship. In any event the basic criterion will have to be satisfied, can rail provide as good a service?

Refusals of Applications for Quality or Quantity Licences

24. I intend that applicants should be free as they are now to renew their applications at any time. This is the real sanction against any failure of the railways to operate a reliable service and much simpler than any indemnity system. It will also be a healthy stimulus to the railways to keep their standards up. Even if it were practicable an indemnity system would be of doubtful value. On one of the freightliner routes, there is an arrangement under which a consignor who pays a higher rate can recover the freight charge if his consignment is delayed. In practice the customers nearly always pay the lower rate which carries no such guarantee since the normal service is sufficiently reliable.
25. At the last meeting of the Economic Policy Committee I was asked to arrange for interdepartmental consideration of certain features of my proposals and to report the outcome to the First Secretary of State before reference was made to the Cabinet. I have done so and at Annex D is a copy of my report to the First Secretary. It will be seen that officials reached agreement on a number of the points raised by my colleagues, but failed to agree on the possible effect of quantity licensing on industrial costs and efficiency, especially as regards own-account transport. I do not share the fears expressed on this score and neither do my licensing authorities. They have long experience in comparing road and rail rates, and in assessing the more complex issues arising from proof of need for a new road haulage service, and their opinion on the feasibility of my proposals should not be lightly set aside. I would in any case seek powers in the new Transport Bill to issue directions of a general nature for their guidance should this prove necessary.

26. In formulating these proposals I have kept in mind the possibility of our joining the EEC and the effect of this on our licensing arrangements. The Six have not made much progress in evolving a common transport policy, but they may do so in the field of haulage licensing during the next six to twelve months. I have already referred to the parallels between my quality licensing proposals and those being evolved by the EEC. Quantity control is applied in all Common Market countries, though in different forms, and the principle of controlling "access to the market" and of limiting road haulage capacity is firmly entrenched. They do not apply this control to own-account transport, but there is already some recognition that its exclusion is illogical and West Germany imposes a special discriminatory tax on own-account operators. I think our best course is to develop our own licensing system as best suits our domestic needs, but to keep it sufficiently flexible to permit later modifications in the EEC context if necessary; may be our initiative will influence the still developing policies of the Six.

27. I have considered other proposals and rejected them. For example a very substantial charge for long distance licences or for vehicles above a certain weight would no doubt lead to some diversion of traffic to rail. But it would be indiscriminate and would raise costs of road transport hauls for which there was no effective rail alternative or indeed no rail alternative at all.

28. A second possibility would be to repeal the present legislation on carrier licensing and replace it with quality licensing alone. But this would mean foregoing the opportunity to utilise the spare capacity on the freightliner network and to reduce the rail deficit. There would also be considerable criticism from the unions if the limited right which the railways now have to object to haulage licences were removed altogether. A variant of this proposal would be to leave the present system as it is but with quality licensing superimposed. But this would mean retaining a system acknowledged to be grossly defective and continuing to incur the waste of resources that it involves.
29. Another possibility is a quota system like that in several EEC countries. But their experience does not suggest that a quota system confined to public hauliers would be of any assistance to the railways; the more likely effect of any such system would be to increase own-account operation. And there is little point in developing a quota system merely to restrict entry into the public haulage side of the industry.

Conclusion

30. There being no satisfactory alternative, I seek the approval of my colleagues to the proposals set out in this paper as a basis for my road haulage licensing policy. I would consult further with the various interests concerned before framing proposals for inclusion in the forthcoming Transport Bill.

B. A. C.

Ministry of Transport, S.E.1.

5th July, 1967
The relation of current Ministry research into transport costs to my proposals for carrier licensing

I have explained in paragraph 3 of the Memorandum that I do not think it necessary to wait for the full results of our research into the relevant costs of carrying goods by road or rail and into consignors' preferences before making changes in the licensing system. The object of this research is to provide information relative to road and rail investment to help us assess the consequences of a number of policies with economic implications. Already information from this research has helped guide our thinking in formulating my present proposals but the programme is not complete. It is proceeding by a series of stages. In the first stage we are concentrating on an examination of two typical trunk routes - between London and Newcastle and between South Lancashire and Glasgow. We are collecting detailed data on the costs of all road and rail transits which make use of these routes or of any part of them. From this data we intend to build up a mathematical model (the transport costs model) which will enable us to examine the variations in costs which would occur on these two routes if the balance of traffic between road and rail on them were to be altered in various ways. At the moment we have collected and analysed a large amount of information about road costs on the routes, and this is now in a form suitable for use in the model. The collection of rail data is not so far advanced, but we expect to complete this part of the stage in the next month or two. The final results of this stage are likely to be available at the end of this year. The next stage of the model will be to extend the methods used in the examination of these two groups to cover all the major trunk routes in the country; we expect that completion of this work will take some considerable time. It will be published at appropriate stages.

2. Our research also sets out to discover why consignors choose particular forms of transport (the "shippers' survey"). Preliminary results show that there is widespread ignorance among consignors of freight about rail charges. More than half of the firms in the sample we have taken who are now forwarding their goods by road clearly had little knowledge of rail freight charges. Furthermore, the railway image in respect of speed and reliability of service stems predominantly from pre-freightliner days. It simply cannot be asserted that normal commercial forces, coupled with well-informed transport management, will in themselves lead to the most economic allocation of traffic. Some additional stimulus is clearly necessary.

3. The research is also likely to show that several factors such as the cost of accidents can on balance be expected to emphasise the advantage of carriage by rail rather than by road.

4. When the final results of our present research become available they will be valuable in providing cost information which will help to guide the licensing authorities in exercising their powers to grant or refuse licences. For example, the research will show on which particular routes diversion of traffic to rail is likely to be most beneficial both to the consignor and to the national interest. This information will help licensing authorities to decide whether in marginal cases applications for quantity licences should be granted or not.
5. It is not necessary to await the completion of the research before revising the licensing system in the manner I propose. One does not need to know the exact relative costs of carrying traffic by road or rail to justify using the licensing system to speed up the transfer of a comparatively small amount of traffic from road to rail, 15m. tons out of a total of 1,500m. tons carried by road, which is expected by the railways to make a contribution of £6m. to the reduction of the overall deficit. We know that there is spare capacity on the railways that could profitably be used to carry this traffic. I accept that it would be futile to obtain a reduction in the deficit at the cost of a higher burden on industrial costs generally. But there is no risk of this. My proposals will ensure that no traffic will be switched from road to rail unless it is clearly established in each individual case that the rail costs would be no higher than the road costs.
The present system of carrier licensing

The present system of carriers’ licensing is set out in part IV of the Road Traffic Act, 1960 and is largely a continuation of that introduced in the Road and Rail Traffic Act, 1933. With certain minor exceptions all goods vehicles used either for hire or reward (public haulage) or for carrying goods in connection with the owner’s trade or business (own account operation) must be authorised under a carrier’s licence.

2. Licences are issued by the Licensing Authorities. I appoint one Authority for each of the twelve Traffic Areas in Great Britain, and acts independently in granting or refusing licences. He is supported by a small staff of executive and clerical officers, who assist in preparing cases for decision and in keeping records of operators, but the actual decision on a licence application is made by the Licensing Authority personally or his appointed deputy.

3. Own-account operators are entitled to a licence on demand, unless their previous record as an operator is such as to disqualify them from holding further licences. This type of licence (the 'C' licence) is by far the most common; about 1.3m. out of the 1.5m. goods vehicles on the road operate under it.

4. Public hauliers operate under an 'A' licence (for public haulage only) or sometimes a 'B' licence (which entitles an operator to undertake both public haulage and own-account operation). Applications for these licences are published in a weekly list by the Licensing Authority, and are open to objections from established hauliers and from the railways on the grounds that suitable transport services already exist to do the work which the applicant wishes to undertake. Where objections are made, the Licensing Authority will usually preside at a public hearing, at which the objectors attempt to prove their objection, and the applicant brings evidence from prospective customers to show the need for his services.

5. If the Licensing Authority grants an 'A' licence, its use is restricted mainly to the type of work which the applicant stated he intended to undertake. A 'B' licence is usually further restricted by specific conditions laying down precisely what the operator may or may not do under its authority. Breaches of conditions may lead to withdrawal of the licence.

6. 'A' licences normally last for 5 years, and 'B' for 2. The holder may have to undergo the same process of proof of need either on renewal or whenever he wishes to increase the size of his fleet.

7. Licensing Authorities also have certain limited powers to revoke or suspend a carrier's licence (of any kind) in the event of serious or repeated offences against the law governing vehicle maintenance and observance of the limits on drivers' hours. They are served by staffs of engineers and technically qualified vehicle examiners who examine vehicles and report cases of bad maintenance both for possible action against the carrier's licence and for prosecution in the courts. Similarly, their staff of traffic examiners investigate breaches of the law on hours of driving and check observance of licence conditions.
8. The system is in practice far less restrictive than might appear from this brief description. Only the 200,000 public haulage vehicles are subject to any kind of quantity control, and it is not difficult for an applicant to produce customers who will say they wish to use his services. This is frequently sufficient to secure the grant of a licence, since the criterion of the adequacy of existing services was relegated to a secondary place by an amendment to the law in 1953 which provided that the needs of customers should be paramount in the consideration of applications. Moreover, many operators get what are virtually public haulier licences under an arrangement which gives them an automatic right to a licence if they can produce a twelve months' exclusive contract with a prospective customer. There are thus few real restrictions on entry to the industry to a man who is determined to get in, and any protection which the system may once have given to the railways has virtually disappeared. It is clear that the system not only no longer achieves many of its objectives, but that these objectives themselves need to be re-appraised in the light of modern needs.
ANNEX C

Statistical Comparison of existing and proposed system of carrier licensing

(PERIOD 1965)

PRESENT SYSTEM

Public haulage vehicles requiring a carrier's licence and subject to quantity control 180,000 vehicles

Other goods vehicles (mainly "own-account") requiring a carrier's licence but not subject to quantity control 1,360,000 vehicles

Total subject to carrier licensing 1,540,000 vehicles

NEW SYSTEM

Subject to quality licensing only:

(i) goods vehicles 30 cwt. - 540 5 tons u.w.

(ii) goods vehicles over 5 tons u.w. engaged in short-haul traffic, not in competition with rail 30 570,000 vehicles

Subject to quality and quantity licensing:

Goods vehicles over 5 tons u.w. engaged in long-haul traffic and certain short-haul traffic in competition with rail:

(i) public haulage (estimated) 40 70,000 vehicles

(ii) own-account (estimated) 30 640,000 vehicles

FREIGHT FROM CARRIER LICENSING Altogether: 900,000 vehicles
Report on an inter-departmental meeting of officials on 27th June

1. I was asked at the last meeting of the Economic Policy Committee to arrange for further inter-departmental consideration of certain features of my proposals and to report the outcome to the First Secretary of State before the matter was referred to the Cabinet. Discussions have now been held between departments on these features as well as on further points raised by the Parliamentary Secretary, Department of Economic Affairs, in a subsequent letter to me. Their outcome was as follows:

Quality Licensing

2. There are now no important outstanding points of difference between Departments on the proposals for a quality licensing system. On the two specific points raised at the Economic Policy Committee meeting, it was concluded that:

(a) in the light of licensing authorities' experience in this country and of the known effectiveness of the quality licensing systems now operating in West Germany and France, it would be possible to envisage applicants being examined as to their financial resources and business prospects, although the Board of Trade are still doubtful whether such a process would be successful; and the Scottish Office thought that a detailed examination of this kind would involve the Government in an unprecedented type of investigation;

(b) apart from its manpower implications, a system under which licences were given out on demand and subsequent enforcement was very tough would be undesirable on safety grounds.

3. A possible alternative system of quality control was suggested, under which goods vehicles would be examined at six-monthly rather than annual intervals and licences issued automatically. The Board of Trade saw advantage in this course, but it was pointed out that it would be extremely expensive.

Quantity Licensing

4. Officials were agreed on three of the points outstanding from the E.N. Committee meeting. They were:

(a) The question of compensation for existing own-account operators who were refused licences. It was considered that no case could be made for such compensation, provided that suitable transitional arrangements were worked out and that licensing authorities in considering applications took account of the difficulties which might arise in a very few cases.

(b) The possibility of an indemnity on the part of the railways against failures in promised services. It was accepted that this was impracticable and that the best safeguard was that rail objections against issue of carrier licences would not succeed if the railways proved unreliable.
(c) The proposal to allow an operator whose application was refused to buy a licence. It was felt that if the price of such a licence was low the whole purpose of the licensing system would be defeated, while if the price were high enough to avoid this danger, the device would be criticised as worthless. Moreover to be effective such a scheme would have to be accompanied by an elaborate identification procedure.

5. On the remaining point raised at the S.W. Committee, the Scottish Office and the Board of Trade were unable to agree that the proposals would not inflict serious damage upon industry in Scotland and the other development areas. These two departments considered that even if licensing authorities were given special directions about dealing with road licence applications in these areas, and despite the safeguard that licences would not be imposed unless rail provided a comparable service, industrialists would still be discouraged from investment in these areas by doubts about their future freedom to run their own transport.

6. The meeting also discussed certain points raised by the Parliamentary Secretary of the Department of Economic Affairs. These points mainly concerned the practical problems which would face licensing authorities in the administration of the new quantity system, and the difficulty of assessing and deciding upon the needs of manufacturers to operate their own lorries. Officials spent some time in discussing various aspects of these problems but were unable to agree upon a common view. Most departments were concerned about the degree of inquiry into own account operators' costs which would apparently be necessary in considering applications for licences and about the difficulty of giving due weight to customers' preferences about methods of transport without undermining the whole system. In general, departments other than the Ministry of Transport felt that, while some doubts on points of detail might eventually be resolved, the proposals for quantity licensing especially as applied to own-account transport would have serious effects on industrial costs and efficiency. At the same time it was recognised that to apply the system to public hauliers alone would be ineffectual.

Ministry of Transport

7th July, 1967

CABINET

ARAB ATTITUDES AND BRITISH ECONOMIC INTERESTS IN THE MIDDLE EAST

Memorandum by the Secretary of State for Foreign Affairs

At our meeting on 20th June (CC(67) 40th Conclusions, Minute 2), I was invited to circulate a memorandum assessing the manner in which the attitude of the Arab countries to the supply of oil to this country might develop and the consequences for our economic interests.

2. The assessments in this paper and its annex are necessarily no more than informed guesses, since they depend on a series of variable factors which cannot be accurately predicted and over some of which we have little or no control. But British policy will have its own bearing on these factors. It is therefore important to consider the relationship of possible policies to our economic interests.

British Policy

3. The three occasions in the past 20 years on which our oil supplies and general economic interests in the Middle East have been dangerously threatened by political developments have been the Arab/Israel wars of 1948, 1956 and 1967:

(i) In 1948 our economic stake was not so vital and our political posture, although not regarded as favourable by the Arabs, was less unfavourable than that of any other great power. Our economic interests greatly expanded during the succeeding period.

(ii) In 1956 we deliberately took the Israel side and incurred intense odium in the Arab countries. Our political position suffered permanent damage. Nevertheless, by a policy of lying low and disengaging from political involvement to the extent that was possible, we recovered remarkably quickly. Our economic interests in the area have expanded considerably during the past 11 years to our great advantage.

(iii) In 1967 for reasons varying from spontaneous public reaction to United Arab Republic (UAR) policies to downright misrepresentation and malice we became identified to a wholly unreal degree with the Israel side and this has done much damage to our position in Arab countries. Memories of 1956 aggravated this.
4. In both 1956 and 1967 our national interests, political and economic, would have been endangered if Israel had been defeated and Nasser's hegemony in the Arab world firmly established; it would also have been difficult for us to maintain a purely neutral position if Israel was being overwhelmed. But Israel has now demonstrated her ability, by her own efforts, to secure her existence, and her right of passage through the Straits of Tiran is again assured. With United States diplomatic support for Israel on these points, there is no serious danger that either of these rights will be threatened for the foreseeable future, whether there is a peace settlement or not. Nothing that we do can fundamentally improve Israel's position; nor is it likely to affect substantially the chances of a peace settlement. Apart from Arab attitudes, the chances of a settlement turn on the acceptance or not by the Russians of the need to come to an agreement with the Americans on terms which can be pressed on the Arabs and Israelis. We are unlikely to have more than a marginal influence on the outcome of such a dialogue if it takes place, and, since the terms are likely to be unpalatable to both sides, we cannot gain by being associated with it. (We may be compelled to take some diplomatic part e.g. in detailed negotiation in the United Nations if some general United States/Soviet understanding is reached).

5. But if our actions and our attitudes to the Arab/Israel problem are unlikely to affect the chances of a settlement, they can very substantially affect our economic and other interests in the Middle East. There are limits to the extent to which we can take a position based on a calculation of national interest alone; these limits include both public sentiment about the issue of principle involved in the right of a small country to survive and special pressures in this country. But, except to the extent to which we can take a position based on our interests which involves leaning if anything towards the Arab side, our interventions in the Arab/Israel problem will work counter to the salvaging of our economic interests in the area. If we follow the post-Suez policy of disengagement, there may be a better chance of restoring our situation than there was in 1957 because:

(a) We have after all a far better case for our actions in the past six weeks than we had over Suez; this should gradually come to be recognised.

(b) Although it is too early to strike a balance with any certainty, the post-war position of Nasser in the Arab world is weaker instead of stronger. The same may prove to be true of the Russian position, though the Soviet Government will do everything within their power to redress this and they have active allies in the Arab world.

6. The Americans are differently placed (see paragraph 8 below), but there are signs that our need (as opposed to that of the Americans) to cultivate the moderate Arabs is now better understood in Washington, and recognised as being indirectly in the American as well as in the British interest.

7. The critical factor in the future of our economic interests is thus not so much whether the Arab/Israel problem will continue to disturb the area, but what role Britain will continue to play. The more retiring our role, the better our prospects seem likely to be, and vice versa.

-2-
American Policy

8. The United States Government are differently situated for the following reasons:-

(a) They are not so vulnerable to economic pressures as we are, and the Arabs (and Russians) know it.

(b) The domestic political pressure which the Israelis can bring to bear is stronger.

(c) American influence over the Israeli Government and American ability to provide aid as part of any settlement are things of which the Arabs must take account, however hostile they feel.

These factors taken as a whole give the Americans more scope than we have for manoeuvring independently of Arab attitudes. Arab hostility to the United States is at present greater than to us; but the Arab need to come to terms with the United States is stronger. Moreover, in the last analysis it is Soviet fear of a military confrontation with the United States which imposes limits on Soviet support for the Arabs of a kind which could bring matters to a 'brink'.

Soviet Policy

9. In the long term, Russian policy in the Middle East is likely to continue to be directed towards:-

(a) The maintenance or creation of pro-Soviet regimes in the area and the encouragement of local Communist or "National Liberation" movements,

(b) The erosion of Western influence, including the economic interests of the United States and Britain.

In the pursuit of these aims the Russians will be subject to two important limitations:-

(a) The wish to avoid a military conflict involving the United States referred to above. During the crisis their role was undoubtedly one of caution and restraint as soon as they appreciated that this risk was a possibility. They are unlikely to wish to see the recreation of a situation in which the Arabs might draw them into a conflict with the United States over Israel.

(b) The fact that even if they can afford to sustain the UAR economy for a period (and it is questionable whether they can take this on as a permanent commitment) they certainly cannot also afford the scale of economic support which will be necessary to tide other Arab countries over a prolonged period over which oil revenues and other trading connections with the West are interrupted.
10. So far the Russians have shown few overt signs of looking beyond the short-term tactical need to re-establish their credentials with the Arabs. The Israeli victory and the subsequent accusations that they failed to come to the assistance of the Arabs dealt a considerable blow to their prestige. But the effect of this should not be exaggerated. The Russians probably consider that the damage to Western interests in the area has been, and is likely to continue to be, very great. This short-term Soviet aim of consolidating their position with the Arabs is likely to over-ride other considerations for some time, and during this period they will continue to exploit and stimulate Arab hostility to Britain and the United States. Moreover, if it is correct that they wish to avoid another Arab/Israel war, they will probably see less risk and more political benefit to themselves in continuing to deflect Arab hostility primarily against Western interests even after the present phase of consolidation is over. Soviet policy, directly or indirectly, will encourage the maintenance of punitive measures on the oil trade and/or passage through the Suez Canal. They will also presumably continue their 'foothold in Africa' policy, exemplified by their arming of Somalia and their interest, which must be assumed, in the future of the Yemen and Aden.

11. There are some factors which may in due course modify Russian Middle East policy at least in part. It is possible that if the dislocation caused by the policy described were prolonged without any corresponding political benefits, we could expect an Arab reaction against the Russians. The Russians may also become aware that they can only hope to deliver political satisfaction to the Arabs in the shape of an Israeli withdrawal if they can come to some arrangement with the Americans.

12. Moreover, anticipating this reaction and as a result of the reappraisal of their policies in the area which they must also be undertaking, the Russians may decide that their interests will be better served and the economic burden less by placing greater emphasis on Algeria, Syria, Iraq and/or other Arab countries rather than by continuing to back Nasser.

Israel Policy

13. It is to be expected that the Israelis will pursue a firm policy, i.e. no substantial concessions without a quid pro quo in the way of peace negotiations or acceptance of Israel's right to exist. Since economic warfare against us is the most substantial weapon in Arab hands, this will tend to harden Arab action against our economic interests on the pretext of British sympathy with and the belief in British influence over Israel. There are nuances to this: if the Israelis are provocative on e.g. Jerusalem or the West Bank, then the Arab will to maintain punitive measures against us will be correspondingly strengthened; unless we succeed in dissociating ourselves convincingly from Israel's actions. On some points we shall be able to do this, but there will be limits and they may arise soon.

Inter-Arab Policies

14. Much will depend on the development of relations between the Arab Governments. For some time ahead, we must abandon any hope of modifying the attitude of total hostility on the part of the "revolutionary"
Arab countries: the UAR, Algeria, Iraq and Syria. But domestic pressures may cause even them to modify their punitive economic measures; and these and other pressures - e.g. Asian and African economic interests - may cause the UAR to reopen the Suez Canal. In the main, however, we must assume that this group will do all they can to hurt us, and will use all the means of pressure at their disposal to induce other Arab governments to do likewise. In this they will have Soviet and other Communist support.

15. Our hopes of easement therefore depend basically on the non-revolutionary governments and the extent to which they are able to act independently of the UAR Government. It is in any case in these countries that the preponderant part of our economic interests - oil supply, oil investment and trade - are situated: the two important exceptions are the Suez Canal and Iraqi oil.

16. As time passes, we can expect disenchantment with Nasser and recriminations between the Arab Governments about responsibility for defeat to weaken Arab solidarity and the will to maintain a state of affairs which hurts the Arabs at least as much as it hurts the targets of their hostility. There is some evidence of this happening already: from the start the UAR, Algeria and Syria have taken a more extreme line on oil stoppages.

17. A key element will be the position of President Nasser. If he disappeared, then there would almost certainly be a strong trend towards a less heroic and less cavalier attitude to the Arabs' own economic interests. At present, his disappearance does not seem likely to happen; but it is not impossible and, short of it, the trend of his prestige and influence seems likely to be downward, unless he can produce some new political success.

18. Nevertheless, it must be expected that the deep Arab sense of humiliation resulting in wholesale blaming of others and affecting non-revolutionary as well as revolutionary governments alike, will continue to be a strong influence on governments' actions for many months. This will be so, even though emotions may cool and material factors begin to re-exert their influence.

19. The attitudes of Governments are only part of the problem. We must also take account of popular pressures on moderately disposed governments. The propaganda of the UAR and the other revolutionary Arab governments will continue to incite anti-Western hostility among mass opinion and industrial labour and to encourage subversive activity. This has been important in recent weeks when oil stoppages have often been either the direct result of action by organised labour or because governments have found it necessary to appease popular feeling by acting themselves. Although the more moderate Arab Governments seem to be regaining control of the general situation in their countries, they will have to pay great heed to these dangers for many months. They must therefore be expected to be cautious about any return to more normal relations with the West which could excite popular passions, stimulate strike action or facilitate subversion and sabotage. However successful these governments are in maintaining general control, we must still allow for at least sporadic outbursts of popular action against Western interests.
20. Finally, the attitudes of the Arab Governments will to a large extent be affected by the course of events and the policies of other governments. These are discussed above. The two biggest unknowns are the future of Nasser, and the immediate direction of Soviet policy in the area; in particular the extent to which the Russians will decide to continue to back Nasser or, as a result of their own reappraisal, put more money on Algeria and other Arab horses. This memorandum assumes that early progress towards a definitive settlement of the Arab/Israel problem is unlikely, and that it will remain a disturbing political element for the foreseeable future, though without a renewal of hostilities.

21. The annex to this memorandum attempts to relate these Arab attitudes to our specific economic interests: oil (which is looked at more widely than the narrow question of supply to the United Kingdom), exports generally, arms sales, the Suez Canal and sterling.

Conclusions

22. The conclusions are in fact set out in paragraphs 4 and 5 above. We have an important and vulnerable industrial and financial stake in the Arab countries. We therefore have a strong interest in rebuilding our relations with these countries. But the degree to which we can follow a purely self-interested course of this kind is limited by public feeling on the merits of the Arab/Israeli dispute and by special pressures existing on this subject in Britain. We are therefore in a highly vulnerable position.

23. Given that the Israelis have shown an outstanding ability to defend themselves without our support, our best policy would appear to be that of the maximum practicable disengagement from this dispute. We cannot wholly disengage, e.g. from discussion under United Nations auspices. But in general, in our present military and economic situation, where we cannot intervene decisively, we stand to lose more from activity which may be misunderstood (and exploited by Cairo Radio and the Soviet Government) than we gain from the wisdom and experience we may contribute to the problem. This may not sound an heroic stance but it corresponds to the realities governing our economic interests in the area.

G. B.

Foreign Office, S. W. 1.

7th July, 1967
This annex looks at oil matters more widely than just in the context of supplies to the United Kingdom. As regards our other economic interests it deals with our direct interests in the Arab countries and only marginally with the wider implications for our economy and the balance of payments, which would call for study by other departments concerned.

2. The United Arab Republic, Syria and Algeria can be expected to continue to press the other Arab countries to make maximum use of economic weapons, oil being the most powerful, against those countries which in their view oppose or do not sufficiently support the Arabs in their confrontation with Israel. Kuwait, Saudi Arabia, Libya (even though at present its oil exports have only been partially resumed) and the Persian Gulf Sheikhdoms can be expected, with varying degrees of determination and skill, to attempt to return fairly quickly to something approaching normal relations with the West. Saudi Arabia is the government most likely among the oil exporters to take an independent line, and the Gulf Sheikhdoms can be expected to follow her lead, at a safe distance. Kuwait is less reliable owing to the régime's predilection for nationalist gestures. Of the other Arab countries, Iraq is the most likely to be influenced by the U.A.E. line in spite of the fact that it is in the worst position of all to forego its oil revenues for any length of time. Even in Iraq, however, there is bound to be a reaction against the pro-Nasser line as the economic effects begin to be felt; indeed exports have already been resumed on a selective basis.

3. The likely effects on our oil interests are best considered /in the
In the short and the longer terms. In the short term there is a good hope that Libyan exports will soon return to normal except to the United Kingdom and the United States. If she accepted U.K. and U.S. destinations this would put her in the same position as all the other oil producers. Assuming that there is a change of government in Iraq, our best guess is that the Iraqis are likely to be the least reliable and the most selective regards oil exports and in any case they cannot ignore the dias' physical control over the pipelines from North Iraq to the Mediterranean.

In the other oil countries the ban on exports to the U.K. and U.S. may well not be removed for many weeks. This is what the more moderate governments have judged to be the least they could get away with as a gesture of solidarity and a safety valve for popular pressures. Fortunately its practical effect is limited since we can replace supplies of Arab oil with non-Arab oil. It will, however, have some balance of payments effects which the Treasury and the Ministry of Power are keeping under review.

In the short term, therefore, the supply situation as regards Arab oil should not be too serious as long as there is a sufficient degree of international co-operation to deal with it. However, even if the problem of Nigerian oil supplies is resolved satisfactorily, there will continue to be a supply problem, primarily of tanker availability, arising from the closure of the transit routes. This will almost certainly last for some months. On top of this the possibility of interruptions of exports by popular action must be allowed for. For the next few weeks at least it would probably be prudent to assume that at any one time strikes, demonstrations or sabotage or a combination of these will reduce
Current availability of Arab oil supplies by, say, 1.5 million barrels a day (75 m. tons a year).

A separate study is being made by the Departments concerned for dependence on Arab oil supplies in the longer term.

Turning from the supply problem to the future of our investments, our oil assets in the Arab countries are likely to be affected adversely in the longer term, though it is impossible to be precise about this. The assets most in jeopardy are those of the Iraq Petroleum Company (IPC) in which British Petroleum and Shell together hold nearly a half interest. At the very least, the chance of the IPC's settling its long-standing dispute with the Iraq Government in a fashion which would open the way to considerable expansion of its activities is now very much slimmer and may be lost for good.

Our oil assets in the other Arab producing countries run less risk of expropriation or similar drastic action. However, the fact that during the last few weeks the oil companies have been subjected to direction and control by the concessionary governments to an unprecedented degree and with impunity so far as effective intervention by the parent governments of the companies concerned, may encourage the concessionary governments to be similarly assertive in future even in less abnormal circumstances. The manifestation of this is likely to be increased pressure on the companies from concessionary governments for a larger slice of the cake, to the detriment of our balance of payments: i.e. an acceleration of the process of erosion of the profitability of oil production operations which we had already accepted as inevitable. There are also other foreign interests e.g. French, Italian
Italian and Japanese, who might be ready to take advantages thrown open by our difficulties.

British Exports to Arab Countries

4. Annexed to this paper is a table showing British exports to Arab countries (including arms) in 1965 and 1966, with a projection for 1967 of the likely figures of exports had the crisis, the fighting, and its consequential effects not intervened. This shows that British exports to the Arab countries were likely in 1967 to be nearly £220 million. The table divides the countries into two groups: the first being the four "revolutionary" countries, the second group the others. In the first group the figure of £17.5 m. for exports to the "revolutionary" countries is likely to be greatly reduced by the reduction in purchasing power from the stoppage of oil and the suspension of receipts from Canal dues. This will apply even if the countries concerned do not maintain a ban on British imports for the rest of the year or most of it. On the other hand, there will to some extent be pressures to buy spare parts for goods already imported and consumers' and merchants' pressures to continue to buy from traditional suppliers. If the ban continued to be strictly applied for the rest of the year, our exports to the "revolutionary" countries for 1967 would probably only amount to £20 - 25 million of which £5.6 million would have been exported prior to the end of April. If the ban were raised fairly quickly our exports for 1967 might well come to something as high as, say, £35 million.

5. The remaining countries, i.e. the "non-revolutionary" countries in group B, will not necessarily all behave in the same way. Most of this group of governments will wish to avoid imposing any restrictions but will have to take account of popular opinion.
opinion and pressure from the "revolutionaries". How successful they are in this will depend on events, other governments' attitudes, and our policies. In any case as a result of war damage, lack of confidence during the crisis period, some losses in oil deliveries and other factors, our exports to these countries are likely to fall well below £171 m. this year.

Arms Sales

It is no easier as regards arms sales to work out with any precision either what would have happened had there been no war or what is likely to happen now there has been one. There is little doubt that the Saudi Arabians and the Lebanese will wish, provided it is politically feasible for them, to continue with the arrangements made (Saudi Arabia for the air defence scheme and the Lebanese for the Bloodhounds). Of the rest the only country with significant contracts outstanding is Iraq - £1,760,000 for miscellaneous ammunition and spare parts; it is unlikely that they will wish to cancel these contracts although, since money will be short, they cannot be regarded as a good risk.

As regards the question of what contracts might yet be signed during the course of 1967 of any consequence, the effects of the war on our interests may not be very severe, provided political conditions are favourable for "non-revolutionary" Arab states to trade with us. Apart from the possibility of selling Jet Provosts for Iraq, which might be worth £1 or £2 million, our lucrative markets lie in the moderate or less radically orientated Arab states, namely Libya, Kuwait and Saudi Arabia. The air defence scheme for Libya is due to be presented shortly and it seems on the whole unlikely that the Libyans will turn it down on political grounds, unless the pressures on them are severe.

The same
The same would probably apply as regards Lightnings for Kuwait in the Airwork part of the air deal for Saudi Arabia. (We have also the possibility of selling naval equipment to Libya and Saudi Arabia.)

3. At a very rough guess, which must be treated with great reserve, we might quantify the losses to us of arms sales as a result of the war as of the order of something under £1 million even if Syria, Sudan and the U.A.R. cancel existing orders. The losses as a result of a further deterioration in our relations with the "moderate" Arab countries are unquantifiable, but could be very considerable.

Suez Canal

4. The closure, and prospects of continued closure of the Suez Canal, have important implications for our commercial interests here and above its effect on oil supplies and oil prices. So long as the Suez Canal is closed to all shipping a competitive advantage in the markets of East Africa, South Asia, the Far East and Australasia is given to our main competitors in the region, i.e. the Japanese, Australians and the South Africans. If the Canal were opened but still closed to U.K. and U.S. ships, the competitive position of our own exports would not be so seriously affected, assuming that they could find shipping space on other flag carriers, but there would obviously be a prospect of loss to British shipping earnings unless all the British ships concerned could be profitably employed on journeys to other destinations. A closure of the Canal to British and American goods, irrespective of the flag of the ship in which they were carried, would, of course, since British goods at a substantial commercial disadvantage
against virtually all competitors in virtually all Asian, Australasian and East African markets.

Sterling Balances

6. Continued denial of oil to the U.K. by Arab states, any more general difficulties experienced by our oil companies in those states, a prolonged closure of the Suez Canal, and an effective embargo of U.K. exports to Arab countries would be bound to affect confidence in the pound because of the extra strain which they would throw on our balance of payments. We must also bear in mind the possibility that the Arab states might decide to link with their oil boycott a massive withdrawal or switch of holdings of sterling. The Arab Governments which hold large reserves in sterling would probably be reluctant to lend themselves to manœuvre of this kind, which would involve them in considerable financial loss, but they might not be able to hold out against pressure from others. A large Arab withdrawal from sterling might of course produce a chain reaction which could put us in a difficult position. The Treasury would no doubt wish to express views on this question.
### United Kingdom Exports to Arab Countries

*(including arms)*

**UNIT £ million**

<table>
<thead>
<tr>
<th>Country</th>
<th>1965 (actual)</th>
<th>1966 (actual)</th>
<th>1967 (projected, assuming - (of which crisis had not arisen) arms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.A.R.</td>
<td>19.5</td>
<td>18.0</td>
<td>16.5</td>
</tr>
<tr>
<td>Iraq</td>
<td>21.6</td>
<td>25.9</td>
<td>23.0</td>
</tr>
<tr>
<td>Syria</td>
<td>6.1</td>
<td>6.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Algeria</td>
<td>6.9</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>54.1</strong></td>
<td><strong>53.8</strong></td>
<td><strong>47.5</strong></td>
</tr>
<tr>
<td>Jordan</td>
<td>8.3</td>
<td>9.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Lebanon</td>
<td>14.7</td>
<td>16.4</td>
<td>17.0</td>
</tr>
<tr>
<td>Sudan</td>
<td>16.6</td>
<td>16.3</td>
<td>15.5</td>
</tr>
<tr>
<td>Libya</td>
<td>21.8</td>
<td>28.8</td>
<td>31.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3.9</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Morocco</td>
<td>4.5</td>
<td>5.1</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Saudi Arabia</strong></td>
<td><strong>12.6</strong></td>
<td><strong>20.4</strong></td>
<td><strong>30.0</strong></td>
</tr>
<tr>
<td>Kuwait</td>
<td>18.8</td>
<td>25.8</td>
<td>25.0</td>
</tr>
<tr>
<td>Bahrain</td>
<td>8.7</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td>Qatar</td>
<td>3.7</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>Abu Dhabi</td>
<td>1.5</td>
<td>3.4</td>
<td>23.5</td>
</tr>
<tr>
<td>Minor States</td>
<td>2.7</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Muscat &amp; Oman</td>
<td>2.2</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>South Arabia</td>
<td>13.9</td>
<td>13.2</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>113.9</strong></td>
<td><strong>157.9</strong></td>
<td><strong>171.5</strong></td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>168.0</strong></td>
<td><strong>211.7</strong></td>
<td><strong>219.0</strong></td>
</tr>
</tbody>
</table>

*Note: Saudi Arabia - Depending on contracts, rate of delivery, figures could be as high as £91 m. and £76 m.*
7th July, 1967

CABINET

GOVERNMENT ACHIEVEMENTS

Memorandum by the Chancellor of the Exchequer

I circulate for the information of my colleagues a paper which compares progress during the first three years of the present Government with that during the last three years of the last Administration in the social services and in some areas beyond them. Figures for 1967-68 are estimated.

2. Although there is no doubt that in some fields the figures must be used with reserve, in recognition of the fact that what has been done in the past three years is to some extent the fruits of plans and approvals by the last Administration, there is no doubt about the general story which the figures tell - improvement, and what is more, an increased pace of improvement, all round. More university students; more teachers in training; more schools completed; more hospital beds; more homes for the elderly and handicapped; a great upsurge in the provision of health centres; better social security benefits (in real terms, not just money) and rebates for the poorest ratepayers; improved roads; and an increased rate of housebuilding. Whatever role our predecessors may have played in laying the foundation of some part of this advance, there is no denying that - in spite of the difficult economic inheritance to which we succeeded - we have achieved a great deal in the 2\frac{1}{2}-3 years we have been in office.

L.J.C.

Treasury Chambers, S.W.1.

7th July, 1967
Government Achievements

EDUCATION (GREAT BRITAIN)

(a) Student numbers in Universities and Colleges of Advanced Technology:

<table>
<thead>
<tr>
<th>Academic year</th>
<th>Students (000)</th>
<th>Average (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>125</td>
<td></td>
</tr>
<tr>
<td>1962-63</td>
<td>133</td>
<td>133</td>
</tr>
<tr>
<td>1963-64</td>
<td>141</td>
<td></td>
</tr>
<tr>
<td>1964-65</td>
<td>157</td>
<td></td>
</tr>
<tr>
<td>1965-66</td>
<td>169</td>
<td>171</td>
</tr>
<tr>
<td>1966-67</td>
<td>187</td>
<td></td>
</tr>
</tbody>
</table>

Increase of 29%

(b) Teachers in initial training:

<table>
<thead>
<tr>
<th>Academic year</th>
<th>Teachers Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>43,230</td>
</tr>
<tr>
<td>1962-63</td>
<td>57,086</td>
</tr>
<tr>
<td>1963-64</td>
<td>64,370</td>
</tr>
<tr>
<td>1964-65</td>
<td>73,630</td>
</tr>
<tr>
<td>1965-66</td>
<td>85,270</td>
</tr>
<tr>
<td>1966-67</td>
<td>97,658</td>
</tr>
</tbody>
</table>

Increase of 56%

(c) Schools completed:

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Primary Schools</th>
<th>Average</th>
<th>Secondary Schools</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>284</td>
<td>308</td>
<td>162</td>
<td>167</td>
</tr>
<tr>
<td>1962</td>
<td>297</td>
<td></td>
<td>148</td>
<td></td>
</tr>
<tr>
<td>1963</td>
<td>343</td>
<td>Increase of 44%</td>
<td>192</td>
<td>Increase of 4%</td>
</tr>
<tr>
<td>1964</td>
<td>434</td>
<td></td>
<td>201</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>426</td>
<td>444</td>
<td>196</td>
<td>174</td>
</tr>
<tr>
<td>1966</td>
<td>472</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

HEALTH (GREAT BRITAIN)

(a) Hospital beds completed through new building or conversion schemes:

October 1962-September 1964: 6,797
October 1964-September 1966: 9,375
Increase of 36%

(b) Capital expenditure on hospitals:

1962-63 to 1964-65: £162 million
1965-66 to 1967-68: £257 million
Increase of 59%

(The total value of building started in the latter period is about £370 million, nearly double that started in the earlier period.)
(c) New homes built for elderly and handicapped:

1962-63 to 1964-65: 255 homes accommodating 12,340 residents
1965-66 to 1967-68: 354 homes accommodating 18,620 residents
(an increase of 35% in residents)

(d) Local health centres: only 24 of these centres were built between 1951 and 1964; but since the beginning of 1965:

- 16 have been opened
- 37 are under construction
- 34 have had plans approved
- 80 are in the planning stage

168

SOCIAL SECURITY

(a) Total gross cash expenditure on all social security payments:

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>1,626</td>
</tr>
<tr>
<td>1964-65</td>
<td>2,047</td>
</tr>
<tr>
<td>1967-68</td>
<td>2,826</td>
</tr>
</tbody>
</table>

(At the beginning of October, 1966, the Government issued a general invitation to retirement pensioners to put in claims for the new Supplementary Benefits. This led to about 400,000 new claims in the first six months of the scheme.)

(b) The National Insurance pension for a single person (flat rate) has risen as follows compared with the Retail Prices and Earnings Indices:

<table>
<thead>
<tr>
<th>Date</th>
<th>Pension</th>
<th>Retail Price Index</th>
<th>Earnings Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1961 (just increased)</td>
<td>57s. 6d.</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>October 1964</td>
<td>67s. 6d.</td>
<td>112</td>
<td>120</td>
</tr>
<tr>
<td>April 1965 (first Labour increase)</td>
<td>80s.</td>
<td>115</td>
<td>125</td>
</tr>
<tr>
<td>October 1967 (second Labour increase)</td>
<td>90s.</td>
<td>126</td>
<td>143</td>
</tr>
</tbody>
</table>

RATE REBATE

Until the 1966 Rating Act, there was no provision for rate rebates. Over a million ratepayers have benefited from the scheme, to the tune of about £15 a head.
POLICE

The police forces have been growing over the last six years, but very much more rapidly in the last three. Thus

<table>
<thead>
<tr>
<th></th>
<th>Uniformed Police</th>
<th>Total (including Traffic wardens and other civilians)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1961-September 1964</td>
<td>2,200</td>
<td>3,300</td>
</tr>
<tr>
<td>September 1964-April 1967</td>
<td>3,000</td>
<td>5,500</td>
</tr>
</tbody>
</table>

HOUSING

Under the present Labour Government, 1 million houses have been completed. During the corresponding period (2½-3 years) of the end of the Conservative Government 850,000 houses were completed.

ROADS

(a) Miles of motorway opened:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Increase of 48%</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 1961-October 1964</td>
<td>155</td>
<td></td>
</tr>
<tr>
<td>November 1964-October 1967</td>
<td>230</td>
<td></td>
</tr>
</tbody>
</table>

(b) Expenditure on local authority roads:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million</td>
<td>44</td>
<td>60</td>
<td>69</td>
<td>66</td>
<td>86</td>
<td>100</td>
</tr>
<tr>
<td>Average</td>
<td>58</td>
<td></td>
<td>Increase of 45%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

POST OFFICE

(e) Increase in number of telephones in use:

|----------|---------------------|--------------------------|

(b) Number of trunk calls made:

<table>
<thead>
<tr>
<th></th>
<th>1964: 625 million</th>
<th>1967: 930 million</th>
</tr>
</thead>
</table>

PORTS

Average annual investment expenditure:

|----------|------------------------|------------------------|

3.
### Promotion of Local Employment in Development Areas (Including Factory Building)

<table>
<thead>
<tr>
<th>Year</th>
<th>£ million</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-63</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>1963-64</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>1964-65</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>1965-66</td>
<td>30</td>
<td>42</td>
</tr>
<tr>
<td>1966-67</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>1967-68</td>
<td>54</td>
<td></td>
</tr>
</tbody>
</table>

### Advance Factories in Development Areas Announced

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Factories</th>
<th>'000 Sq. Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>19</td>
<td>590</td>
</tr>
<tr>
<td>1963</td>
<td>13</td>
<td>140</td>
</tr>
<tr>
<td>1964 (April)</td>
<td>10</td>
<td>263</td>
</tr>
<tr>
<td>1964 (November)</td>
<td>29</td>
<td>691</td>
</tr>
<tr>
<td>1965</td>
<td>26</td>
<td>446</td>
</tr>
<tr>
<td>1966</td>
<td>30</td>
<td>853</td>
</tr>
<tr>
<td>1967</td>
<td>30</td>
<td>700</td>
</tr>
</tbody>
</table>

124 years since November 1964
as per cent of 3 years prior to November 1964
300% 270%
CABINET
PUBLIC EXPENDITURE: PROPOSED ADJUSTMENTS
Memorandum by the Chancellor of the Exchequer

This paper takes account of the fact that the Cabinet has not finally decided what the total reduction in expenditure in 1970-71 should be, but is based on individual adjustments which would total £500 million. It will be seen that, if a reduction on this scale was made, public expenditure would then increase by a total of £1,120 million over the period up to 1970-71 instead of the £1,620 million projected on the basis of the continuation of existing policies (the figures are summarised in Note 6 to C(67) 104). The following paragraphs accordingly discuss the areas of expenditure to which we should look and the amounts which we might hope to save in each area.

Defence

2. The Cabinet has agreed a reduction in the Defence Budget by at least £200 million by 1970-71.

Transport

3. As I said in C(67) 104 (paragraph 8(a)), expenditure on the transport sector is estimated to rise from £800 million in 1967-68 to £970 million in 1970-71. Expenditure under this broad heading falls into three categories:

(a) Roads
(b) Other transport, excluding railway deficit
(c) Railway deficit.

(a) and (b): Roads and other expenditure excluding railway deficit (C(67) 102, pages 105-6, 120-122; these references, and those below, are to the print, not to the typed version)

4. Expenditure under these headings will total £844 million in 1970-71. In addition the Minister of Transport has put forward new proposals costing about £50 million in that year. These consist of:-

\[
\begin{align*}
\text{(i) Infrastructure Grants} & \quad & 29 \\
\text{(ii) Road Safety} & \quad & 3 \frac{3}{4} \\
\text{(iii) Transport Research} & \quad & 1 \frac{1}{2} \\
\text{(iv) Rural Bus Assistance} & \quad & 1 \frac{1}{2} \\
\text{(v) Bus re-equipment grants} & \quad & 10 \\
\text{(vi) Additional Bus Fuel Tax Rebates} & \quad & 7 \\
\end{align*}
\]
These are the £50 million of "further proposals" included in column 5 of the table in Note 6 to C(67) 104. Because the £50 million for these further proposals was included in the 1970-71 total of £15,641 million referred to in paragraph 3(iii) of C(67) 104, a decision not to proceed with any of them would produce a saving.

5. I recommend that a saving of £50 million should be achieved on the planned expenditure of £894 million in 1970-71 (i.e. the £844 million plus the £50 million further proposals). I have invited the Minister of Transport to consider how this saving of £50 million could best be achieved, and make proposals to Cabinet accordingly. The saving might be found:

(a) in part by scaling down the "further proposals";

(b) in part by investigating the possibilities of making charges for use (as distinct from taxation), e.g. by turnpike trusts for motorways or by special charges for "wear and tear" by heavy lorries;

(c) in part by reductions in the road programme.

Railway deficit (C(67) 102, page 120)

6. This will need to be treated separately from other transport expenditure. A new financial structure for the railways is being evolved in the Joint Steering Group which could greatly affect the size of the deficit grant. Moreover, apart from policy decisions which might be taken as a result of this examination, the out-turn on current account, as with all nationalised industries, is liable to fluctuate for other reasons, such as the state of the economy, changes in demand for particular traffic, the timing of price and wage changes, etc. It is therefore not practicable to make other transport expenditure dependent on the results of the railways in particular years, though the expected trend in the deficit is a factor to be taken into account in looking at transport as a whole. With all the reservations inherent in this situation it is reasonable to aim to reduce the expected deficit by £30 million. This should, in my view, be attainable if determined efforts are made to improve productivity; to eliminate surplus capacity, e.g. by single-tracking and resignalling; and to ensure that, except for the lines which we retained and subsidised for social reasons, the network is operated in all respects as a commercial undertaking. I recommend accordingly.

Housing (C(67) 102, pages 107-9 and paragraph 8(b) of C(67) 104)

7. For Great Britain as a whole, public sector housing will cost £1,018 million in 1967-68, and on the basis of "existing policies" it would rise to £1,149 million in 1970-71. This is £45 million more than the increase which we envisaged on the "basic" programme of last year, the excess being mainly due to the adoption of "Parker Morris" standards. By 1970 there will be few remaining local shortages and a large surplus of houses over households. On the other hand there will be many slums and unimprovable properties to replace. The emphasis will shift increasingly to this, to improving "twilight houses" and to catering for higher standards generally. There is a growing body of opinion that we should not force the programme to top 500,000, since there may not be demand for so many new houses as adjustments to the changed situation take place.
8. I recommend a saving of about 3 per cent (£33 million) in 1970-71 on the whole Great Britain programme. This would imply a reduction in starts in 1970 from 242,000 to 232,000. The English and Welsh share of this would be about £27 million, involving a reduction in starts in England and Wales of about 8,000. It may prove that Scotland will not in fact achieve their target and for that reason I would not impose any formal cut.

9. The ways in which modifications could be made are:

(a) starts of public sector houses in the United Kingdom in 1970 should not exceed 232,000, which would achieve a saving of £33 million in 1970-71;

(b) the Minister of Housing and Local Government should advise Cabinet on what measures should be taken to stimulate building of houses by the private sector, and to what extent the cost of such measures would offset the £33 million saving.

Education (C(67) 102, pages 109-110, and paragraph 8(c) of C(67) 104)

10. I recommend a net saving of £45 million in expenditure on education in 1970-71, after allowing for any additional expenditure for making a start on the development of primary education on the lines proposed in the Plowden Report. The Secretary of State for Education and Science has been invited to make proposals designed to achieve the required saving by a combination of some or all of the following measures:

(a) postponement of the raising of the school-leaving age;

(b) investigating the possibilities of substituting loans for part of student grants.

The previous decision to raise the price of school meals needs to be considered in the context of proposals on family endowment and cannot be regarded at this stage as available to meet the cost of the education programme.

Health (C(67) 102, pages 111-112, and paragraph 8(d) of C(67) 104)

11. Cabinet should invite the Minister of Health to advise on what measures could be taken to scale down the steep increases in staffs forecast both for the hospitals and for local authority welfare services.

Local environmental services (C(67) 102, pages 131-132)

12. This block is now expected to take £882 million in 1970-71 - an increase of £150 million over 1967-68. Apart from the biennial negotiations on the rate support grants, our most effective way of containing this block is to reduce the capital element, upon which much of the increase in current expenditure depends. Reductions should be made in the proposed capital expenditure broadly on the lines suggested in C(67) 102 (page 131, sub-paragraph (b)(1)).
13. There are a large number of lesser blocks of expenditure which, on present policies, are forecast to rise fast over the next few years. These include:

<table>
<thead>
<tr>
<th></th>
<th>1967-68</th>
<th>1970-71</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil defence (and strategic stocks)</td>
<td>22</td>
<td>27</td>
</tr>
<tr>
<td>Government research and technological support for industry</td>
<td>96</td>
<td>122</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>288</td>
<td>348</td>
</tr>
<tr>
<td>Fire services</td>
<td>62</td>
<td>72</td>
</tr>
<tr>
<td>Public buildings, United Kingdom</td>
<td>67</td>
<td>84</td>
</tr>
</tbody>
</table>

In addition there are other blocks (e.g., overseas representation and information) which show no great rise, but which offer the chance of some saving. There are a multiplicity of possibilities here, mostly relatively minor, but between them offering a substantial contribution to our target.

14. I recommend that officials should be instructed to examine these possibilities, and that I should later recommend for approval by Ministers before the end of October proposals which would, after making any necessary allowance for new proposals (e.g., on aerospace projects), secure net savings totalling £50 million, as compared with the "existing policies" figures, from the remainder of public expenditure (other than Social Security and Overseas Aid, which I deal with separately below).

Social Security (C(67) 102, pages 113-114, and paragraph 9 of C(67)104)

15. Additional expenditure will be involved in new measures for family endowment from the beginning of 1968-69. These "transfers" involve higher taxation; and whether this takes the form of contributions or of ordinary central Government taxation, the weight of taxation is increased. As I showed in my earlier paper, this will rise from 38 per cent of the GNP to about 40 per cent if we moderate the increase in public expenditure by £500 million. Higher direct taxation may well hold down the growth in consumption which the working population might ordinarily hope to achieve from their higher earnings. For the purpose of this paper I have assumed that (a) the next uprating after October of this year will be in October, 1969; and that (b) in those two years real earnings will increase at 3 per cent per annum. An uprating which compensated fully for price increases in the period and on top of that gave half the increase in real earnings would save nearly £70 million in 1970-71 compared with the estimate included in the overall figures before us now. This saving would be reduced by the amount of any additional expenditure on family endowment, perhaps between £20 million and £60 million.
Aid (C(67) 102, pages 116-118)

16. The Aid programme was reduced by cuts and deferments from £225 million to £205 million as part of the July, 1966 measures. The total for 1970-71 on the basis of the continuation of existing policy is £225 million (C(67) 102, page 116). If we are to achieve defence reductions of at least £200 million, mitigating aid to Singapore and Malaysia may well cost an additional £20-£25 million. The normal aid programme (exclusive of this mitigating aid and the £5 million aid to which we are committed as part of the cereals agreement in the Kennedy Round) should continue at £205 million, in money terms, in the years up to and including 1970-71. On this basis total aid in 1970-71 would amount to £205 million, plus up to £25-£30 million mitigating and Kennedy Round Aid. Expenditure on aid in 1970-71 must therefore be expected to exceed the "existing policy" figure (£225 million) by £5 to £10 million.

SUMMARY OF RECOMMENDATIONS

17. This consideration of possible savings in 1970-71 may be summarised as follows:-

(i) Defence: the Defence Budget to be reduced by at least £200 million (paragraph 2).

(ii) Roads and other transport: the Minister of Transport to propose means of saving £50 million on roads and other expenditure on transport excluding the railways deficit (paragraphs 3-5).

(iii) Railways deficit: the railways deficit to be reduced by £30 million (paragraph 6).

(iv) Housing: £33 million to be saved on public sector housing; the Minister of Housing and Local Government to advise on whether measures should be taken to stimulate housebuilding by the private sector (paragraphs 7-9).

(v) Education: the Secretary of State for Education and Science to propose means of saving £45 million net (paragraph 10).

(vi) Health: the Minister of Health to advise on measures to reduce staff increases in hospitals and welfare services (paragraph 11).

(vii) Local environmental services: capital expenditure to be reduced by £20 million (paragraph 12).

(viii) Remaining expenditure: officials to make proposals for net savings totalling £50 million (paragraphs 13-14).
Social security: a saving of £70 million to be made on the next uprating after October this year; this saving would be offset by between £20 million and £60 million additional expenditure on family endowment (paragraph 15).

Aid: additional expenditure of up to £5 to £10 million (paragraph 16).

18. The effect of these recommendations is set out in Annex A. The total savings recommended in paragraphs 2-14 amount to about £430 million. To this must be added £70 million on social security benefits, offset by £20 million to £60 million on family endowment, and £5 million to £10 million on aid. The net total savings which I recommend, therefore, total about £430 million to £475 million.

19. If we are to secure the full £500 million, therefore, we shall have to look to increases in charges for the balance of between £25 million and £70 million. Separate papers will be circulated on the possibilities in this field.

CONCLUSION

20. I invite my colleagues to endorse the proposals set out above.

L. J. C.

Treasury Chambers, S. W. 1.

7th July, 1967
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>DEFENCE BUDGET</td>
<td>2218</td>
<td>2377</td>
<td>7.2</td>
<td>200</td>
<td>-1.0</td>
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<tr>
<td>TRANSPORT:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roads and other transport (Including Railway Deficit)</td>
<td>669 (1)</td>
<td>894</td>
<td>33.6</td>
<td>50</td>
<td>26.2</td>
</tr>
<tr>
<td>Railway Deficit</td>
<td>127</td>
<td>130</td>
<td>2.4</td>
<td>30</td>
<td>-21.3</td>
</tr>
<tr>
<td>Housing</td>
<td>1018</td>
<td>1149</td>
<td>12.9</td>
<td>33 (2)</td>
<td>9.6</td>
</tr>
<tr>
<td>Education (with school meals and milk and local libraries etc.)</td>
<td>1988</td>
<td>2312</td>
<td>16.3</td>
<td>45</td>
<td>14.0</td>
</tr>
<tr>
<td>Health and Welfare (with Welfare Foods)</td>
<td>1619</td>
<td>1818</td>
<td>12.3</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Local Environmental Services</td>
<td>732</td>
<td>882</td>
<td>20.5</td>
<td>20</td>
<td>17.9</td>
</tr>
<tr>
<td>Remaining Expenditure (Excluding Aid and Social Security)</td>
<td>2544</td>
<td>2425</td>
<td>-4.7</td>
<td>426</td>
<td>5.9</td>
</tr>
<tr>
<td>Total Savings in Paragraphs 2 to 14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restrict Uprating to half real earnings rise</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Endowment</td>
<td>2904</td>
<td>3179</td>
<td>9.5</td>
<td>7.7 to 9.1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aid</td>
<td>205</td>
<td>225</td>
<td>9.8</td>
<td>12.2 to 14.6</td>
<td></td>
</tr>
</tbody>
</table>

(1) Includes further proposals
(2) Excludes cost of any measures to stimulate private house building (Paragraph 9)
<table>
<thead>
<tr>
<th>Years</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963-64</td>
<td>17.8</td>
</tr>
<tr>
<td>1964-65</td>
<td>18.5</td>
</tr>
<tr>
<td>1965-66</td>
<td>19.4</td>
</tr>
<tr>
<td>1966-67</td>
<td>19.9</td>
</tr>
</tbody>
</table>

Note: Married couples both at work count as one.
CABINET

THE OIL SUPPLY SITUATION AND THE UNITED KINGDOM

Note by the Minister of Power

Supply interruptions to date

1. For about a week after 6th June oil was not being loaded at all in the Middle East save in Iran and some of the Gulf Sheikdoms. Exports then slowly restarted from Saudi Arabia, Kuwait and the other Sheikdoms. In the last week exports have begun once more from Iraq via the Levant pipelines and from Libya, but only to certain destinations. In Libya loadings are still impeded by labour unrest. The Suez Canal of course remains closed. Except for Oman (see paragraph 11) all Arab oil states have a ban on exports to the United Kingdom and the United States of America, and some of them to Western Germany. In the last week Nigerian exports have been stopped.

The normal system of supply

2. Annex I gives some broad statistics of the normal oil situation.

3. The production and movement of oil is not arranged between Governments save for the comparatively small amounts of Russian oil and the provision of Algerian oil for France. The great bulk of supply is organised by the oil companies, each with its own crude supply and tanker fleet and in competition in the markets with all the other suppliers. This is a massive operation: for example, the Shell Group world-wide fleet alone, both owned and chartered, which is co-ordinated from their head office in London, numbers about 450 tankers amounting to over 15 million deadweight tons (d.w.t.).

4. The spread of crude oil sources, together with their centralised co-ordination, means that the industry has considerable flexibility to meet supply problems. Each company looks at its supply system area by area (for example taking its European market as a whole) rather than country by country. The main movement into Europe is of crude oil, but there is also a movement of product in and out of Europe, and within Europe between individual countries, in order to balance demand and supply for specific products.
Effect of the interruptions

5. The underlying problem is one of tanker capacity. The shut-off of oil - at the time of writing, most (still) of Iraq and Libya and also of Nigeria - could be made up from other sources. But the closure of the Canal (normally taking 170 millions tons of oil a year) and, until this week, the closure of the Levant pipelines, means that the tanker fleets are not enough to bring round the Cape all the oil available for loading in the Persian Gulf. This is notwithstanding the recall of vessels from lay-up and other employment - BP alone has chartered over 2½ million d.w.t. additional to their normal fleet of 8 million tons. The situation has been complicated by the refusal (or reluctance) of a number of Arab states to accept United Kingdom flag tankers.

6. To make the best use of tanker capacity, some of the tankers en route to the United States of America at the time of the stoppage were diverted to Europe, and companies are now getting additional supplies from Venezuela and the United States of America (a much shorter haul, though the oil itself is more expensive). The build-up of additional supplies is a matter of weeks rather than months.

7. Despite the measures taken, Western Europe is estimated to have suffered a shortfall of about 30 per cent in June. The shortfall in July will be not far short of this, but should reduce in August to about 10-15 per cent. In September, there should, on present estimates, be a further improvement to about normal levels.

OECD

8. Effective co-operation between oil companies is important in order to maximise supplies to us and to Europe. Standing arrangements exist to secure this under the aegis of the Organisation for Economic Co-operation and Development (OECD), as a result of which the USA is able to give anti-Trust clearance to American oil companies to pool their resources with other companies. There has been a delay in activating this machinery, due largely to French obstruction, but the arrangements are now going forward (Annex II).

The United Kingdom position

9. In spite of the Arab ban on loadings for the United Kingdom, our own position has not been markedly different from that of other countries in Western Europe save France. Algeria has throughout maintained supplies to France, which is now aided further by the release to them of exports from Iraq (through the Levant pipelines) and from Libya by permission of the Governments of those countries. Iraq and Libya oil is now being allowed also to other countries - Italy, Spain, Greece and Turkey. While the ban on the United Kingdom remains, the restart of these exports does not help us directly, but it does help indirectly since the shorter hauls will increasingly release tanker capacity.
10. On the other hand, the stoppage of Nigerian oil now adds a further difficulty in programming supplies for the United Kingdom. With the Arab ban on supplies to us our sources were reduced to Venezuela, the USA, Nigeria and, in particular, Iran where production has been maximised to 20 per cent above normal. The industry diverted to us supplies from those four countries, switching to others the Arab oil we used to get. Now the industry has had to re-route tankers yet again in order to secure replacement supplies for Nigerian oil. But with the release of tankers resulting from the easing of the position described in paragraph 9, our position is not likely to be worsened once the re-routing takes effect.

11. A small but useful production is now starting in Oman where Shell have a concession. The Sultan has no objection to exports to the United Kingdom. By the middle of September this should be providing about 10 per cent of our normal supplies. The shorter hauls from the USA and Venezuela will be used to an increasing extent.

**Blec oil**

12. I shall report orally to the Cabinet on the possibility of supplies of oil from countries of the Communist Bloc.

**United Kingdom stocks**

13. At the beginning of June, I reactivated the Oil Industry Emergency Committee (OlIEC) which advises me in emergency on our supply and stock position. Although this is a special committee of the industry, members of my Department take a direct part in its work. Stock levels are reassessed weekly. The 7th July assessment is:

<table>
<thead>
<tr>
<th>Date</th>
<th>June</th>
<th>July</th>
<th>Aug.</th>
<th>Sept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>26th</td>
<td>12.9</td>
<td>11.1</td>
<td>10.2</td>
<td>10.2</td>
</tr>
<tr>
<td>3rd</td>
<td>12.9</td>
<td>11.1</td>
<td>10.2</td>
<td>10.2</td>
</tr>
<tr>
<td>31st</td>
<td>12.9</td>
<td>11.1</td>
<td>10.2</td>
<td>10.2</td>
</tr>
<tr>
<td>30th</td>
<td>12.9</td>
<td>11.1</td>
<td>10.2</td>
<td>10.2</td>
</tr>
</tbody>
</table>

14. When stocks fall below 7-8 weeks, local supply difficulties and difficulties with particular products begin to arise. Overall, the industry is hopeful of no run-down in stock in September, but the situation will be tight because the stock at end-September will be 6½ million tons below normal for the time of year.

15. Within the total stock, the position of individual products varies - see Annex III attached. The product of immediate concern is naphtha, a kind of gasoline which is a vital feedstock for the gas and chemical industries. It was already in short supply world-wide before the crisis. Loss of refinery production (due to lower crude oil arrivals) and the switch to different crude oils have forced the leading supplier (Shell-Mex/BP) to cut deliveries by 15 per cent during July and August. The stock forecast for end-September shows that Naphtha will then be only 4 weeks. My Department is investigating urgently with the oil companies how to cover the shortfall; Russian oil will I hope play a part. Fuel oil at 3½ million tons will be 2½ million tons below normal, but the oil industry plan to increase both production and imports. We will need to encourage the industry to bring in sufficient supplies from September not merely to prevent stocks falling further but to improve them in order to help meet the higher winter demand which is normally partly met by drawing down stocks.
NORMAL SUPPLY STATISTICS

(Million tons a year)

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Western Europe*</th>
<th>Eastern Hemisphere (outside Bloc)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>85</td>
<td>500</td>
<td>775</td>
</tr>
</tbody>
</table>

* including United Kingdom

Western Europe's Sources

<table>
<thead>
<tr>
<th>From</th>
<th>Amount</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>250</td>
<td>about 50 per cent of total</td>
</tr>
<tr>
<td>North Africa</td>
<td>110</td>
<td>about 20 per cent</td>
</tr>
<tr>
<td>West Africa</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Caribbean</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Soviet Bloc</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Other (including indigenous)</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td></td>
<td>500</td>
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Arab Oil Exports

<table>
<thead>
<tr>
<th>Middle East</th>
<th>Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq</td>
<td>Libya</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Algeria</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>40</td>
</tr>
<tr>
<td>Other</td>
<td>50</td>
</tr>
<tr>
<td>Total Arab Oil exports</td>
<td>480 to 500</td>
</tr>
</tbody>
</table>

|                  | 110 |
| Iran exports     | 110 |
| Nigeria exports  | 30  |

Direction of Middle East Exports

<table>
<thead>
<tr>
<th>To</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>50%</td>
</tr>
<tr>
<td>Western Hemisphere</td>
<td>10%</td>
</tr>
<tr>
<td>East of Suez</td>
<td>40%</td>
</tr>
</tbody>
</table>

Nearly all exports from North and West Africa go to Western Europe normally.

Ministry of Power, Thames House South, Millbank, S.W.1.

8th July 1967

(1)
1. At the time of Suez, arrangements were made under the OECD for special co-operation by the oil companies to maximise supplies and for the fair apportionment between European countries of the overall shortfall. The OECD has since maintained emergency arrangements for similar measures in another crisis.

2. The United Kingdom chairs the OECD Oil Committee and called a meeting last month, as the agreed arrangements provide should be done in a supply emergency. The French, however, opposed the meeting on the grounds that it might exacerbate the Arab Governments further; their real reason was no doubt their general policy of dissociating themselves in Arab eyes from the United States and the United Kingdom. The position was made worse by United States insistence that they needed a formal OECD declaration of an emergency to free their companies from anti-trust restrictions on co-operation between them and non-United States companies. The OECD Council eventually passed a resolution which avoided formal declaration of an emergency but still enabled an oil industry advisory body, including United States companies, to be set up. France, Turkey and Germany abstained, the latter on grounds that they could not risk offending Arab Governments under Russian pressure to recognise East Germany. The oil industry body met on 7th July; in the event French and German companies joined.

3. The OECD Oil Committee is to meet early in the week beginning 17th July when it will receive advice from the industry body on the supply outlook for member countries. The setting up of the industry body will help the companies, including the American companies, to co-operate more effectively in maintaining supplies generally, especially through pooling arrangements, (and to the United Kingdom in particular).
## Company stocks of crude, in the United Kingdom

<table>
<thead>
<tr>
<th>Position at 26th June</th>
<th>Position at 3rd July</th>
<th>Estimated Position at 31st July</th>
<th>Estimated Position at 31st August</th>
<th>Estimated Position at 30th September</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
<td><strong>Total supply</strong></td>
<td><strong>Weeks’ supply</strong></td>
<td><strong>Product</strong></td>
<td><strong>Total supply</strong></td>
</tr>
<tr>
<td><strong>Gasolines</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Spirit</td>
<td>1.4 (2.3)</td>
<td>9</td>
<td>1.3 (2.3)</td>
<td>9</td>
</tr>
<tr>
<td>Naphtha</td>
<td>0.5 (0.8)</td>
<td>7</td>
<td>0.5 (0.9)</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>0.1 (0.1)</td>
<td>16</td>
<td>0.1 (0.1)</td>
<td>16</td>
</tr>
<tr>
<td><strong>Kerosenes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kerosenes</td>
<td>0.9 (1.2)</td>
<td>17</td>
<td>0.9 (1.2)</td>
<td>17</td>
</tr>
<tr>
<td><strong>Gas/diesel</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas/diesel</td>
<td>1.7 (2.7)</td>
<td>15</td>
<td>1.7 (2.7)</td>
<td>16</td>
</tr>
<tr>
<td><strong>Fuel oil</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel oil</td>
<td>3.1 (4.9)</td>
<td>12</td>
<td>2.8 (4.9)</td>
<td>11</td>
</tr>
<tr>
<td>Other</td>
<td>0.5 (0.8)</td>
<td>7</td>
<td>0.5 (0.8)</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total stocks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total stocks</td>
<td>8.3 (12.9)</td>
<td>11.3</td>
<td>7.8 (12.9)</td>
<td>11.3</td>
</tr>
</tbody>
</table>

(1) Product stocks exclude an allowance for exports and bunkers of a million tons.

(2) Total stocks are the product stocks plus the product equivalent of the crude oil stocks - 5.0 million tons at 26th June, 5.5 million tons at 3rd July, 4.6 million tons at 31st July, 4.4 million tons at 31st August and 4.9 million tons at 30th September.

MINISTRY OF POWER,
Thames House South,
Millbank, S.W.1.

6th July 1967
10th July, 1967

CABINET

ROAD HAULAGE POLICY

Memorandum by the President of the Board of Trade

In C(67) 122 the Minister of Transport presents her proposals for a new system of licensing heavy lorries, including those of "own account" operators. I feel bound to state briefly why I am convinced on the evidence so far presented that these proposals would be injurious to productive industry and to the national interest.

2. There is, of course, no dispute about the Minister's objective of using the new facilities of British Railways to the best advantage. On the other hand it is also common ground that British industry needs to place a new emphasis on every aspect of distribution and marketing. It came out clearly at the Prime Minister's Conference in June that speed and flexibility in delivery and distribution were crucial in this respect, particularly for exports. Another vital public interest is the attraction of new industry to Scotland, Wales and other development areas, and this is very dependent on management's being convinced that different parts of productive processes which are geographically separated can be geared together conveniently and flexibly. I have frequently found the desire to have its own internal transport under its own control is crucial in a firm's decision whether or not to set up in a Development Area.

3. The essence of the Minister's proposals for "quantity licensing" is that, over and above the freight traffic that the railways will attract by their sheer competitive advantage, an additional volume of traffic should be diverted to them by refusing licences to road hauliers. Where the railways object to licence applications, the onus will be on the hauliers to convince the licensing authorities that considerations of speed, reliability and cost justify the use of road transport.

4. It has been calculated that the traffic diverted to the railways in this way may reduce the railways' deficit by £6 million or, say 4 per cent. This saving would be worth having. But, in my judgment, the issue is whether the inevitable imperfections of any licensing process will not result in costs to British industry outweighing this advantage. I am strongly in favour of the railways winning back all possible traffic, but it should be done, not by restrictive compulsion, but by the railways attracting custom by efficiency and reliability, as we would expect any other public or private enterprise to do.
5. It also seems to me that the licensing authorities will face a task of great complexity. In two long discussions in the Ministerial Committee on Economic Policy (EN) and subsequent meetings between officials, the departments concerned with industrial efficiency have sought to elucidate how the authorities would deal with important difficulties. Some of the main ones were set out in EN(67) 48. For example, how would the authorities quantify the value to be attached to the ability of road vehicles to meet the demand for journeys, at irregular times and at short notice, or to plan round trips with deviations from the main freightliner routes with provision for delivery of part-loads and 'backloading'? More generally, will it be possible for them to attribute a precise cost/benefit to factors such as the flexibility and timing which control of his own fleet gives an "own account" operator, or to allocate overhead costs of hauliers to particular operations in a way that will provide a true cost comparison between road and rail?

6. These judgments will often involve assessing not only the economics of the road hauliers' business but the economics of their customers' business as well. While it may be true at present that some road hauliers and their customers are insufficiently aware of the advantages that the railways offer for some types of traffic, it is a big jump to say that the licensing authorities will in general be competent to make sounder judgments than the businessman about the costs and efficiency of an important aspect of his business.

7. In answer to these points the Ministry of Transport have in effect said no more than that the fears expressed are exaggerated and that the licensing authorities can be relied upon to deal with these matters with wisdom and discretion. Paragraph 6 of Annex D to the Ministers' paper, however, shows clearly that, after detailed examination, the main doubts of the other Departments concerned have not been resolved. For this reason I cannot accept that the risks of going ahead on the lines proposed are justified by the advantage to the railways, nor that the railways could not be helped to market their product in some less costly and cumbersome way.

8. In addition, industry, and exporting industry in particular, are not simply concerned with cost comparison. They are equally concerned in many cases with reliability, regularity of transport and the maintenance of delivery dates. There has been too much genuine experience of delays on the railways for many firms to be willing to allow their transport arrangements to be outside their own control; and the Minister of Transport's proposals are therefore likely to provoke a loud and sincere outcry from a wide section of industry, i.e., they will be represented with some reason as running counter to much of the Government's advice to industry on efficiency, the movement of exports, delivery dates etc.

9. It would be far wiser, in my view, to help the railways to win back traffic by showing that their own performance justifies it, and thereby to winning their customers' confidence.

D. P. T. J.

Board of Trade, S.W.1.

10th July, 1967
CABINET

FAMILY ENDOWMENT

Memorandum by the Chancellor of the Exchequer

When the Cabinet last considered this (CC(67) 36th Conclusions, Minute 4) they were then on balance in favour of an across the board increase in family allowances with suitable adjustments in taxation. But the amount of any increase and the way in which the money was raised were left open.

2. Since then I have devoted much time and effort to a thorough review of all the facts and the ways of dealing most effectively and at tolerable cost with the problem before us. In so doing I have had no wish to question any final decisions the Cabinet may come to. The more however I have looked into all this and the more I have probed the pros and cons, the more firmly convinced have I become of what the solution should be. So firm are my convictions that I feel bound to put these to my colleagues.

3. I am in no doubt that the most effective, most politically acceptable, and the most economical answer is a housing allowance (HA) scheme of which details are in Annex B. Let the facts speak for themselves.

4. Briefly the scheme would help low income families with their housing costs. Families with one child or more with incomes at or below the qualifying level would get actual "rent" (i.e. rent and rates or in the case of the owner-occupier, equivalent outgoings) or 30s, a week whichever was higher. If income was above the qualifying level the amount paid would be tapered off. For example, a three-child family with income up to about £12 per week would get 30s, or actual rent in full if higher. Such a family earning £12 per week would have their income brought up to a minimum of £13 10s. Family allowances (and up to £2 war pensions) will be paid in addition.

5. This scheme would cost £30-£35 million a year. It would achieve the following:

   (i) It would bring up to present supplementary benefit (SB) levels or about 86 per cent (it is assumed here and elsewhere that the results of the Report on Circumstances of Families published on 5th July are still broadly true. In any case there are no other figures to go on) i.e. 138,000 of the 160,000 families with incomes below these levels (such families are known as "deficient" families).
(ii) It would give help to a further 300,000 families with incomes at or above these levels.

(iii) SBs are being improved in November. This may well mean that more than 160,000 families will then have incomes below SB levels (the higher the level of SBs the more "deficient" families there are likely to be). Even then the HA scheme should bring more than 70-30 per cent of "deficient" families up to the improved SB levels.

(iv) It would help greatly with "wage stop" cases i.e. people who are not allowed to draw SBs in full because they normally earn less than this. The number of people who suffer in this way would drop from about 26,000 at the moment to about 12,000.

(v) Of the 22,000 families who would not be brought up to present supplementary levels, no two-child families would be left with an income below these levels by more than 10s. per adult or 5s. per child.

6. Compare this with a scheme for increasing family allowances (FAM) by 5s. or 7s. per week. This would bring up to present SB levels only 35 per cent and 45 per cent respectively (instead of 86 per cent) of families who now have incomes below these levels and a much lower percentage - perhaps only 25 per cent and 35 per cent - of those likely to be below the improved November SB levels up to those levels. The number of "wage stop" cases would be only marginally cut instead of more than halved, 16-20 per cent i.e. about 30-35,000 families (instead of none as under the HA scheme) would be left with incomes below present SB levels by 10s. or more per adult and of those 20 per cent would be below by up to 30s. per adult.

7. Look too at the comparative costs. The HA scheme costs £30-35 million a year. A 5s. or 7s. increase in FAM costs about £62 million per annum or £87 million per annum net of tax and other adjustments - two to three times the cost of the HA scheme and less than half the efficiency in helping those with low incomes. The Minister of Social Security has just published the Report on Family Circumstances. This shows the plight of "deficient" families i.e. those below SB levels who cannot draw these benefits or cannot draw them in full. We shall be judged by our success in helping these families and not by how far we give marginal help to large numbers of families with higher incomes.

8. A table showing the comparative effects of the HA scheme and 5s. and 7s. increases in FAM is at Annex A.

9. Some comparative examples are:

(1) Under the HA scheme a 3-child family with an income of £13 per week would get a minimum of 29s. extra per week. By contrast a 7s. increase in FAM would give 14s. per week whatever the rent.
Under the HA scheme a 2-child family earning £12 per week and paying 50s. rent would get 44s. extra per week. By contrast a 7s. increase in FAM would give only 7s. extra per week.

Under the HA scheme a 5-child family earning £16 per week and paying 50s. rent would get 50s. extra per week. A 7s. FAM increase would give 28s extra per week.

10. These examples speak for themselves though my colleagues will notice in particular that:

(a) 1-child families are eligible for help under the HA scheme but get nothing from increases in FAM;

(b) the HA scheme helps poor families with a major element - rent and rates - in their living costs and deals with the fact that it is a variable element. A little help spread evenly regardless is bound to give more to some whose needs are less and not enough to those whose needs are greater;

(c) under my scheme the poorest get most. The alternative schemes do better than mine for the better off.

11. I know that some of my colleagues continue to see objection to an income test. I respect their views. But let us not be misled into thinking that it resembles the Means Test of the 1930s in any way. There is growing public opinion that help should be concentrated where it is most wanted. There is little or no evidence that people object to this and plenty that they do not. Witness the success of the Minister of Social Security's new Supplementary Benefit Scheme. There is really no evidence that a scheme such as I favour has any effect on incentives or on a man's self-respect - I believe that these are outdated and outworn beliefs. It is certainly not the case in Council Rent Rebate Schemes. A family that is no longer crippled by paying rent is more likely to have new hope and resolution. There will always be a few who do not and will not strive for a better standard of living than any State support can give. But for those who cannot better themselves because they are handicapped or infirm surely it is right that their individual needs should be carefully and sympathetically considered.

12. In my view the case for a housing allowance scheme compared with any other approach is overwhelming. The case on public expenditure grounds is also conclusive. Indeed the latest estimate is that the percentage increase of Supply expenditure 1968-69 over 1967-68 looks like being by far the highest annual increase both at constant and current prices ever known.

13. Nevertheless if in spite of all the disadvantages and the increasing unpopularity of a straight family allowance system my colleagues feel we must go for an increase in FAM across the board then I should not contemplate an increase of more than 5s. or 7s. for each second and subsequent child. This would mean bringing FAM in total up to 13-15s. for second children and 15-17s for all subsequent children. A 7s. increase would far more than restore the purchasing...
power of FAM as originally introduced. An increase of only 3s. 7d. would restore family allowances to their value in 1956 when they were last increased. A 7s. increase would roughly match the rise in average earnings since 1946. We have also to set what we do against the recent increase of 10s. in old age pensions. On public expenditure grounds an outgo of £62 million net for a 5s. increase in family allowances would be difficult enough let alone of £87 million net for a 7s. increase.

14. I would propose to raise whatever money is required by some combination of a reduction in child allowances, a reduction in the reduced rate band of income tax coupled perhaps with an increase in personal allowances and possibly some addition to corporation tax or other adjustments. I cannot accept a straight exchange between family allowances and child tax allowances.

15. I cannot so early in the financial year be sure what the precise combination should be but it would enable the cost to a greater or less extent to fall on the whole body of standard rate taxpayers and not only those with children. We must of course be concerned not only with the relative position of families with lower incomes and families with rather higher incomes i.e. vertical relationships, but also with the relative position of those with children and those without children at all levels of income, i.e. horizontal relationships.

16. I must also report that any scheme which attempted to relate family allowances and child tax allowances would present serious difficulties. The conditions of entitlement to the 2 allowances differ widely. Also FAM is a weekly payment; tax allowances are given on a yearly basis. Reduced child tax allowances cannot be fitted exactly to a FAM increase. Some people receiving National Insurance or industrial injuries benefits including widows would find themselves getting the same cash payments for children but having their tax allowances cut. Quite a lot of people e.g. those with student children would find their tax allowances cut and get no increase in FAM. To try and deal with these inequities would cost a lot of extra money and be very complicated.

17. There remains the question of an interim increase in family allowances for which power is being taken in the National Insurance Bill. There is wide expectation of some increase. If the Cabinet decide that some increase there must be, I am sure we can go no further than to give 5s. for 4th and subsequent children. This would cost about £13 million in a full year and seems as much as we ought to do as a permanent increase.

Conclusion

18. I therefore strongly recommend my colleagues to approve:

(a) a housing allowance scheme as proposed above at a cost of £30-35 million per annum together with

(b) a 5s. increase in family allowances for 4th and subsequent children at a cost of £13 million gross per annum with effect from end October next.
19. There would have to be talks with local authorities about tying in their rent and rate rebate schemes with the HA Scheme. But I see no reason why a satisfactory settlement could not be reached. This problem arises also in the case of Supplementary Benefits and the Minister of Social Security has just written to the Minister of Housing stressing the need to deal with it. SBs and the HA Scheme could be covered at the same time.

20. If there are details of the HA Scheme which my colleagues want looked at further the Ministerial Committee on Social Services might be asked to do this as a matter of urgency.

L.J.C.

Treasury Chambers, S.W.1.

11th July, 1967
HOUSING ALLOWANCE AND FAMILY ALLOWANCE INCREASE

Effect on families of different sizes and income levels

- Increase in family allowances ("FAM") of 7s. for 2nd and subsequent children
- Increase in family allowances ("FAM") of 5s. for 2nd and subsequent children
- Housing allowance ("HA") as in Annex B - rent and rates ("rent") 30s.
- Housing allowance ("HA") as in Annex B - rent and rates ("rent") 50s.
- Housing allowance - "rent" 50s. - plus interim FAM 5s. for 4th and subsequent children

Gross income: £10 £11 £12 £13 £14 £15 £16 £17 £18 £19 £20 £21

<table>
<thead>
<tr>
<th>Case</th>
<th>Benefit - shillings a week (to nearest shilling)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>FAM 7s. for 2nd+</td>
</tr>
<tr>
<td>B</td>
<td>FAM 5s. for 2nd+</td>
</tr>
<tr>
<td>C</td>
<td>HA - rent 30s.</td>
</tr>
<tr>
<td>D</td>
<td>HA - rent 50s.</td>
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Tax at current rates deducted, but no allowance made for any reduction in tax allowances. Table therefore shows most favourable effect of an increase in family allowances.

Average "rent" for a family is about 40s. Most "rents" fall between 30s. and 50s.

Under my proposals an interim FAM increase would be payable in addition to any housing allowance; but the Minister's proposal would subsume any interim increase in the main one later.

Gross income includes family allowances at current level of 8s. for 2nd child, 10s. for 3rd and subsequent, which would continue to be paid over and above any of the benefits above.
1. The essential purpose of the scheme would be to help low income families with their housing costs, one of the main factors in causing hardship.

2. Families with one child or more below the age limits for family allowances and whose incomes were at or below the qualifying income level (see below) would obtain benefit equal to the actual "rent" (i.e., rent and rates or, in the case of the owner-occupied, equivalent outgoings) if this were reasonable, or 30s a week, whichever was the higher. If income exceeded the qualifying level, the amount paid would be reduced on a tapering basis.

3. The main features of the scheme would be -
(a) **Qualifying income level.** £9 a week for a married couple, or £6 15s for a single person, with one child, increased by £1 a week for each child after the first and by the amount of national insurance contributions (15s 8d a week for an employed married man from November this year). Family allowances and war pensions up to £2 per week would be disregarded, other income would be taken into account.

(b) **Taper.** Benefit would be reduced by 6d for each 1s. income in excess of the qualifying level for the first £2, 9d. in the Is for the second £2 and shilling for shilling thereafter.

(c) **Application for an allowance.** Application for an allowance would be made in writing normally by the husband, to a central headquarters. It would consist of -
(i) a printed form filled in by the employer certifying the husband's earnings in the previous six-month period;
(ii) a form completed by the husband containing other relevant details, e.g., other income, dependants, rent, etc. (The intention would be to make this form as simple as possible, drawing on the experience of, e.g., local authority rent or rate rebate forms).

The initiative in making a claim would have to rest with the family concerned, but a publicity campaign could be mounted to encourage applications from those believing themselves to be eligible.
(d) Benefit would be assessed for six months at a time by reference to the above factors. Use of earnings in the previous six months would permit the averaging out of fluctuations or other unusual features and would avoid creating any immediate disincentive, e.g. to work overtime.

(e) Payment. The payment orders would be cashable by either husband or wife on a weekly basis at the Post Office.

(f) Re-application. It would be necessary for the husband to re-apply at the end of the period if he wished to go on receiving the allowance for the next six months. Instructions for re-applying could be included in the payment order book. It would be necessary to provide an up-to-date certificate of earnings from the employer and to refer to any other changes in circumstances since the previous application.

(g) Verification. As indicated, a fresh certificate of earnings would be required from the employer every six months. Rent would be checked initially (from the rent book itself or from a landlord’s certificate), but not thereafter unless a change was notified by the claimant (this on the assumption that any changes are likely to be upwards). There would be a sample check (perhaps 10 per cent) of other details, including number of children (by reference to PAM records), other income, etc.

(h) Cost. The cost, assuming a 90 per cent uptake, is estimated at about £32 million. For the future, cost would rise with any general rise in rent levels and fall with any general rise in the level of low earnings. After the initial period of implementation it would require a staff of about 700 to run the scheme. Centralisation of the work would avoid further strain on local Ministry of Social Security offices.

(ii)
10th July, 1967

CABINET

PUBLIC EXPENDITURE: EDUCATION

Memorandum by the Secretary of State for Education and Science

In the Chancellor's paper C(67) 125, paragraph 10, I am invited to suggest cuts in education amounting to £45 million in 1970-71.

2. I am not clear as to the grounds for this invitation. It is based on the assumption of a total cut in spending of £500 million. But my colleagues will recall the alternative figure to this of £300-£350 million; this would allow personal consumption to grow at 2 per cent a year, the same as the average for the period of 1961-66. At our "Second Reading" debate on 27th June, "the balance of opinion inclined towards a reduction smaller than the £500 million proposed by the Chancellor of the Exchequer" (CC(67) 42nd Conclusions). This balance was not disturbed at the further meeting on 6th July.

3. Quite apart from this, the Chancellor's suggested figures of £45 million is unacceptable on a number of grounds.

(i) He says that an increase in the price of school meals cannot be regarded as available to meet the cost of the education programme. But the school meals and milk service is an integral part of the education service. It has been considered as part of educational expenditure in every PESC exercise. And it is so regarded in the present Civil Review - see C(67) 102, Section III, paragraph 7. The decision last November to raise the price of school meals was taken in the context of the educational budget as well as a proposed scheme of family endowment (CC(66) 58th Conclusions, Minute 4). I cannot accept that the rules should be altered at this stage.

(ii) The cuts proposed by the Chancellor do not compare like with like. In the case of roads and housing, they are cuts in a total which includes "further proposals" over and above the basic programmes so far agreed by the Cabinet (see C(67) 125, paragraphs 4 and 7). I estimate that these further proposals have the effect of increasing the basic programme for roads and housing by about £40 million in each case. By contrast, the basic programme for health is unchanged, that for education down by £20 million (because of revised forecasts of the number of teachers), and that for social security also down. In other words, education and social security have already made some contributions (if fortuitously) to the required savings; roads and housing start with an overdraft. To put it differently, the Chancellor's suggestion for education largely ignores the "further proposals" which have been and must be made in education of the same kind as those already taken
into account for roads and housing. They include Plowden educational priority areas (my paper C(67) 9) and the Open University (my paper MISC 124(66) 1). They also include (C(67) 102, Section III, paragraph 6) some further expenditure on Plowden, new medical schools (the Todd Commission will report early next year), something to enable more students to get into the universities and smaller sums for research computers, educational technology and retraining of teachers. These further proposals, to some at least of which we have public commitments, should be included, as with roads and housing, in the basic total from which any cuts are made.

(iii) The Chancellor refers to student loans. But Annex B6 of C(67) 100, which was agreed between my Department and the Treasury, records that substantial savings could not appear in 1970-71. Thus student loans are irrelevant to the Chancellor's problem, which is basically that he faces a 6.9 per cent increase in public expenditure in 1968-69; thereafter the prospective increase (even before cuts) is only 2.6 per cent per annum, which is lower than the expected increase in GNP (and of course the Chancellor also proposes to keep a contingency allowance of £250 million - see C(67) 103, paragraphs 10 and 13).

(iv) I would regard it (quite apart from the merits) as politically out of the question to go back on raising the school leaving age in 1970-71 and break a pledge first made by the Conservatives which we have repeatedly endorsed (as has Mr. Heath only a fortnight ago). Moreover the Party would hardly think the leaving age less urgent than colour TV or local radio or BBC pop or F1157 or Concord or the Channel Tunnel, all of which we seem to be able to afford.

4. I am of course ready to play my part and find a reduction in the PESC item "Education (with school meals and milk)" as part of whatever total cut the Cabinet decides on. But £45 million, without even taking into account my further proposals, is totally unreasonable. We must bear in mind the words of the First Secretary (DEA Progress Report for July) "Education is an essential support for economic growth. It plays a vital part in meeting the needs of the economy for skilled manpower of all kinds, contributes to the advance of industrial technology, and improves the general efficiency and competence of the whole population".

C.A.R.C.

Department of Education and Science, W.T.

30th July, 1967
CABINET

PUBLIC EXPENDITURE: PROPOSED ADJUSTMENTS: AID PROGRAMME

Memorandum by the Minister of Overseas Development

Paragraph 17(x) of the Chancellor's paper C(67) 125 says that, under his proposals, expenditure on aid would rise by up to £5 million to £10 million in 1970-71. But, as paragraph 16 of his paper shows, the normal aid programme would remain static at the level to which it was reduced in July, 1966 - £20 million below the "existing policies" level. The apparent increase is achieved only by adding in the food aid we agreed to as part of the Kennedy Round on cereals and the mitigatory aid we expect to give to Singapore and Malaysia when our troops are being withdrawn. Food aid is an item in a commercial bargain from which we expect to gain advantages not connected with the aid programme. Mitigatory aid in the Far East is part of the price we are paying for a much greater saving in our overseas military expenditure, as is recognised in paragraph 3 of the report of the Public Expenditure Survey Committee on Areas of Choice (C(67) 102) and in paragraph 7 of the Chancellor's paper of 21st June on Public Expenditure (C(67) 104). The Chancellor recognises in paragraph 16 of his current paper - C(67) 125) that these expenditures should be additional to the normal aid programme. The effect of his proposals would thus be, not to increase that programme, but to maintain for the next three years the reduction imposed as part of the emergency measures last July.

2. The proposals for the aid programme contrast with those for other major programmes. What is at issue for these in the Chancellor's proposals is a lowering of the rate of increase - under those proposals total expenditure would rise by 8 per cent in the three years up to 1970-71. But aid would remain static throughout those years 9 per cent below the figure approved for 1966-67.

3. The position is made worse by the fact that, under the Chancellor's proposals, the aid programme, unlike nearly all other programmes, would continue to be based on current prices instead of constant prices. The real value of the normal aid programme would therefore fall even more.

4. In my paper of 28th June (C(67) 120), I have explained that the balance of payments cost of the aid programme is only about one-third of the gross expenditure and that repayments of capital and interest, which currently run at about £60 million a year, must also be taken into account. The conclusion in my paper was that the balance of payments impact of the aid programme is not much out of line with public expenditure generally.
5. If the programme was held at £205 million, the most immediate result would be that we should be unable to make our contribution to the replenishment of the International Development Association (IDA) at a proper level, without damage to the bilateral programmes both for Commonwealth and foreign countries which I know would cause serious concern both to the Foreign and Commonwealth Secretaries. The IDA is not only the most efficient international aid-giving body, but is of great value to developing countries, particularly Commonwealth countries and more especially India and Pakistan. For every pound we put into it, Commonwealth countries get £6 out and India alone gets 24. It is also very beneficial to our own balance of payments, because we get 30s, in export orders for every pound we put in. We thus stand to gain all round from a large replenishment. The President of the International Bank is anxious that we should come forward at once with a firm indication of the level at which we would be prepared to contribute to the replenishment. The United States have proposed a replenishment rising to four times the present level, and this is supported by the Canadians and Scandinavians. We obviously cannot afford this, but I am anxious to be in a position to indicate our willingness to contribute to a replenishment at twice the present level; anything less than that would in my opinion very definitely not meet the case.

6. With an aid programme of no more than £205 million we should cut a very poor figure in the Second United Nations Conference on Trade and Development next year. We should be unable to exercise a constructive influence and our record would be contrasted unfavourably with that of our predecessors. Moreover we should come in for increasing criticism from all those in Parliament and the country who believe that we should be doing more for overseas development. It was one thing to cut the aid programme for 1967-68 as an emergency measure; it would be regarded as quite another to maintain that cut for the next three years. A relatively small relaxation in the present restrictions on the programme would, I am convinced, save us very serious difficulty and embarrassment.

7. I take the view that an aid programme of £225 million at constant prices is the minimum required to carry out our responsibilities according to our professions. If my colleagues are not prepared to accept that, I suggest that the absolute rock bottom they should consider is a programme of £205 million at constant prices plus £10 million in addition to allow us to offer to contribute to the replenishment of the IDA on the basis described in paragraph 5 above. This would mean that the normal aid programme would be £215 million at constant prices; I attach importance to constant prices, since this would prevent the real value of the programme declining as prices rose.

A. G. B.

Ministry of Overseas Development, S. W. 1.

10th July, 1967
CABINET

FAMILY ENDOWMENT: SCHOOL MEALS AND WELFARE MILK

Note by the Chancellor of the Exchequer

I circulate for the information of my colleagues two tables prepared by officials illustrating the effects of

(a) putting up the price of school meals by 6d. to 1s. 6d. and the price of welfare milk by 2d. a pint coupled with

(b) schemes giving relief to those with low incomes and to large families.

L. J. C.

Treasury Chambers, S. W. 1.

11th July, 1967
## SCHOOL MEALS

### Additional weekly cost during term

<table>
<thead>
<tr>
<th>Income</th>
<th>£10</th>
<th>£12</th>
<th>£14</th>
<th>£16</th>
<th>£18</th>
<th>£20</th>
<th>£25</th>
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<td>under 5, A</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-5s.6d.</td>
<td>2s.6d.</td>
<td>2s.6d.</td>
<td>2s.6d.</td>
</tr>
<tr>
<td>under 5, B</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>under 5, C</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tbody>
</table>

- Shows the extra weekly cost during school term of an increase in the price of school meals from 1s.0d. to 1s.6d.; assuming that remission arrangements continue broadly as at present but revised to take account of the new Supplementary Benefit rates, and that remission is claimed when available.

- Lines B and C show the extra weekly cost as at A, but on the assumption that the remission arrangements are extended as follows:
  - B: Entitlement to free meals extended to £1 above the scale used for Line A.
  - C: Free meals extended to all 4th and subsequent dependent children.

- House family allowances. Certain disregarded income and certain expenses, including rent and National Insurance contribution, are deducted to give net income, which determines entitlement to remission. The actual deduction for each purpose varies widely, but for this table an average deduction of £4 has been assumed.
WELFARE MILK

<table>
<thead>
<tr>
<th>Income</th>
<th>£10</th>
<th>£12</th>
<th>£14</th>
<th>£16</th>
<th>£18</th>
<th>£20</th>
<th>£25</th>
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<tr>
<td>Under 5,</td>
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<td></td>
</tr>
<tr>
<td>A</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
</tr>
<tr>
<td>B</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
</tr>
<tr>
<td>C</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
<td>1s.2d.</td>
</tr>
</tbody>
</table>

This shows the extra cost of an increase in the price of welfare milk from 4d. to 6d. a pint, assuming that arrangements for free tokens continue as at present but related to the new Supplementary Benefit rates, and that free tokens are claimed when available.

Lines B and C show the extra weekly cost as at A, but on the assumption that the arrangements for free tokens are extended as follows -

B: Entitlement to free tokens extended to £1 above Supplementary Benefit levels.
C: Free milk extended to all 3rd and subsequent children under 5.

Includes Family allowances. Certain disregarded income and certain expenses, including rent and National Insurance contributions, are deducted to give net income, which determines entitlement to remission. The actual deduction for this purpose varies widely, but for this table an average deduction of 8d has been assumed.
CABINET

FAMILY ENDOWMENT

Memorandum by the Minister of Social Security

In his paper (C(67) 131) the Chancellor of the Exchequer makes a strong plea that we should adopt a housing allowance scheme as the means of dealing with poverty among children. This proposal brings us back again to the fundamental question whether we are prepared to contemplate an extension of direct means-testing for the fathers of families in work, a measure which the Cabinet have hitherto been unwilling to adopt.

2. The fundamental argument in the Chancellor's paper seems to be that "there is growing public opinion that help should be concentrated where it is most wanted". I would not dispute that this is so; but I believe that in deciding the right course to adopt on this important issue we ought to look behind facile and only partially informed views propounded in the Press. There will always be plenty of people in favour of this means-testing - for others, The Chancellor goes on to suggest that there is little evidence that people would object to another direct means test and plenty that they do not. This seems to me to ignore a good deal of evidence of which I am only too conscious. We know for a fact that the Trades Union Congress, and many of our supporters, and of course the Child Poverty Action Group, would object strenuously to a means-tested solution. My own Family Survey has shown that either there is a great deal of resistance to means-testing among those liable to undergo it, or that means-tested answers can be relatively ineffective. Of the families eligible for free school meals with the father in full-time work, only about one-quarter are receiving them. For welfare milk, the proportion is even smaller. Only about 60 per cent of the families in the Survey with fathers sick or unemployed and apparently eligible for national assistance were in fact receiving it. Even where the elderly are concerned, we must be careful to draw the right lessons from the success of the supplementary pension scheme. While it is true that the scheme has produced 500,000 successful new claimants, an analysis of the figures shows that they were for the greater part people becoming eligible for the first time as a result of the more generous disregards of the new scheme, and we are probably still a long way short of attracting all the old people whom the survey of retirement pensioners showed to be in the greatest need.
3. Equally, I think that the Chancellor’s view of the effect of his proposed scheme on incentive is both unsupported by evidence and optimistic. The Family Survey showed that only about one-seventh of the fathers of deficient families suffered from disabilities limiting their earning capacity. As to the rest, I would concede that a proportion probably have little chance of adding to their earnings by greater effort. Nevertheless, I can see no reason for doubting that the readiness of the remainder to work overtime or accept promotion or even to maintain their present earnings, is likely to be blunted by a scheme which would mean that they were no better, or only a little better, off if they strove harder.

4. The Chancellor refers in his paragraph 16 to the difficulties of relating family allowances to child tax allowances. I would not deny that they exist and are not completely soluble. It is, however, easy to exaggerate their extent. They would make a relatively few people whom we wanted to help worse off and in most cases only for relatively short periods. On the other hand, the Chancellor is silent about the difficulties of the rent allowance scheme. This would, by definition, be designed as an income maintenance scheme for the least well off, and related, however indirectly, to supplementary benefit. This last is on a weekly basis, but on grounds of administrative expense alone, the housing allowance would have to operate six months in arrears and must, therefore, in some cases, e.g. where earnings fluctuate seasonally, generate payments out of phase with the actual incidence of hardship.

5. Nor does the Chancellor’s paper recognise a number of problems which seem to me to be associated with his scheme. Firstly, to put it no higher, it must surely reduce the enthusiasm of local authorities to introduce, at any rate for families, rent rebate schemes on the model recommended in the recent circular. It could hardly fail to lead eventually to local authorities adopting their rent rebate schemes to exclude families with children, thus substantially increasing the cost of the housing allowance scheme. Nor should we forget that there might be some effect on private rents. Secondly, there is the possibility that the scheme might have to be extended to childless married couples and single persons, to whom it could perfectly well, and logically ought to, be extended. Thirdly, some people and organisations would, I think, argue that, if we are willing to adopt means-testing at all, we should at least do so in a way which lifts 100 per cent, and not 86 per cent, of the deficient families up to or above the supplementary benefit level, i.e. that if means-testing must be the chosen method, it should take the form of straightforward supplementation of earnings.

6. In comparing the effects of alternative schemes, the Chancellor has understated the effects of the scheme which I favour. The proportion of children in families which would be brought up to or above the supplementary benefit level by a 10s. give-and-take scheme would be 65 per cent. On the other hand, the corresponding proportion for the housing allowance scheme would be appreciably less than 86 per cent. The total cost of the Chancellor’s proposals is between £43 million and £48 million a year as compared with a net annual cost of £32 million for a 10s. give-and-take scheme. As was shown in Annex B to my paper (C(67) 7), for an annual net cost of £45 million one could have a give-and-take scheme with an increase of 15s. in the family allowance for the second and subsequent children which would lift 68 per cent of families and 80 per cent of children out of the "deficient" area.
7. It would be wrong of me to join issue with the Chancellor over the way in which revenue should be raised in order to finance whatever is the chosen scheme. I would only make the following comments on paragraphs 14 and 15 of his memorandum. He envisages that if the Cabinet adhere to their previous decision, there should be some reduction in child tax allowances, notwithstanding the difficulty of reconciling this with an increase in family allowances. The cost of his proposed housing allowance scheme is of the same order as the net cost, in an ordinary year, of the give-and-take scheme with a 10s. increase of family allowances which I favour. That scheme would help more families only a little way above the supplementary benefit level, and on the grounds which I set out in my earlier memorandum (C(66) 183) I would regard this as a positive advantage. This advantage would seem to me all the greater if we are, in fact, going to make all families with children above the chosen level of special support worse off by increasing charges for school meals and perhaps other charges also.

8. Linked with the proposed housing allowances, the Chancellor proposes to increase family allowances across the board for the fourth and subsequent children at the cost of a further £13 million a year. I am sure it is right to do something as soon as we can for the worst off families, but the particular combination of measures advocated by the Chancellor has the curious result that the improvement for the largest families must at best be indiscriminate or at worst could be "subsumed", when the housing allowance scheme came along, only for the least well off. A give-and-take scheme would avoid this anomalous result.

M. H.


11th July, 1967
CABINET

INDUSTRIAL EXPANSION BILL

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

The Ministerial Committee on Economic Policy has been considering proposals by the Minister of Technology for the early introduction of an Industrial Expansion Bill. Briefly, this would be an enabling Bill giving general powers to introduce, and finance, measures designed to promote industrial efficiency, extend or sustain productive capacity and support technological advance. Examples of the kind of scheme which might be promoted under the Bill are the acquisition of the Beagle Aircraft Company (which has already been agreed but not implemented), and measures to sustain investment in the Machine Tool Industry during periods of recession.

2. Schemes falling within the general purposes of the Bill would be submitted to Parliament in the form of Orders subject to Affirmative Resolution. The Bill would provide that Government financial assistance for approved schemes might be in the form of grant, loan, guarantee or, in agreement with the other parties concerned, by equity participation and would require the method and amount of financial assistance to be set out in the Order for each scheme submitted to Parliament. The Bill would not confer any compulsory powers. It is contemplated that the Government would, when the Bill was introduced, submit to Parliament proposals for a Select Committee which could examine schemes promoted under the Bill.

3. The object of the Bill would be to provide a faster and more flexible Parliamentary procedure for Government assistance to Industry: not only in order to avoid taking up excessive Parliamentary time with individual Bills for individual projects but also to ensure that, for example, swift counter-cyclical action could be taken when it was needed and was not prevented by lack of Parliamentary time at the critical period. At the same time, the proposed Select Committee would enable Parliament to scrutinise all Government measures taken under the powers conferred by the Bill and should provide an effective answer to criticism that this enabling Bill would erode Parliament's powers of supervision and control.
4. A large majority of the Committee on Economic Policy favours these proposals - and no member is actively opposed to them - on the understanding that the enabling powers would be available to Ministers of all Departments with sponsorship responsibilities for industries and not to the Minister of Technology alone. The Committee recognise, however, that such a Bill will be controversial both within Parliament and in Industry, and that careful advance preparation by way of discussions with Industry is clearly essential. The Committee also consider that an explanatory White Paper, of which a draft is already being prepared, should be presented to Parliament very shortly before the Bill is introduced; a long interval between publication of the White Paper and introduction of the Bill would be likely to give rise to unnecessary anxieties about, and therefore hostility towards, the Bill.

5. Timing, however, presents a problem. Full discussion and consultation with Industry will inevitably take some time and the drafting of a general enabling Bill of this character, which provides the necessary powers without going so wide as to give rise to unnecessary anxieties, will not be straightforward. On the other hand, one of the schemes which the Minister of Technology wishes to implement under the Bill, when enacted, is the acquisition of the Beagle Aircraft Company. The terms of the Government's agreement with the vendor require that legislation to enable the Government to acquire this Company should be laid before Parliament by the end of this year and should be enacted within 9 months of first reading. There are also two other aircraft schemes requiring legislation - financing Concord production and acquisition of a Government interest in the merged Airframe Industry - which could be effected under the Bill and, although these are not so urgent as Beagle, powers will almost certainly be needed by mid-1968.

6. In these circumstances, the Ministerial Committee on Economic Policy have concluded that:

(a) The Minister of Technology should now be authorised to arrange for the drafting of an Industrial Expansion Bill on the lines described above, which would give enabling powers to Ministers of those Departments having sponsorship responsibilities for industries.

(b) I should arrange forthwith for consultations with both sides of industry and with the National Economic Development Council about the proposed Bill.

(c) An explanatory White Paper should be issued very shortly before the introduction of the Bill.

(d) The Committee should examine the position further towards the end of September, in the light of progress of the consultations with industry and of the drafting of the Bill, to determine whether:

(i) the Industrial Expansion Bill should be introduced at the beginning of next session; or
(ii) the introduction of the Industrial Expansion Bill should be deferred, and consequently a separate Bill to acquire the Beagle Aircraft Company should be introduced at the beginning of the session.

7. I ask my colleagues to endorse these conclusions. I will put before them in due course the recommendations of the Economic Policy Committee on the timing of the introduction of the Industrial Expansion Bill.

M. S.

Department of Economic Affairs, S. W. 1.

20th July, 1967
CABINET

THE OIL POSITION

Note by the Minister of Power

Supply Interruptions to date

The situation is broadly unchanged since a week ago (my paper C(67) 126). A trickle of oil is reported to have started through Tapline (the big pipeline from Saudi Arabia to the Levant).

United Kingdom stocks

2. Stocks in the week ended 10th July rose by 0.3 million tons. However, our imports still included substantial tonnages (nearly half of the total) of Saudi Arabian and Kuwait crude which had been loaded before the ban and had come round by the Cape. Companies have revised upwards their stock estimates for end-August and end-September as more tonnage is now known to be firm to the United Kingdom. The forecast for end-September is now a million tons (5 days supply) higher than estimated last week.

Company Stock Levels

<table>
<thead>
<tr>
<th>Product stocks</th>
<th>Product yield from crude stocks</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>million tons</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuals</td>
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<tr>
<td>End May</td>
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<tr>
<td>End July</td>
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<td>4.3</td>
<td>11.8 (11.1)</td>
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<td>End August</td>
<td>7.9</td>
<td>3.9</td>
<td>11.6 (10.2)</td>
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<td>End September</td>
<td>7.3</td>
<td>4.1</td>
<td>11.4 (10.2)</td>
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R. M.

Ministry of Power, S.W.1.

17th July, 1967
At their meeting on 13th July, 1967 (CC(67) 48th Conclusions, Minute 3), the Cabinet invited me, in consultation with the Ministers principally concerned, to prepare a draft statement on family endowment, presenting an increase of family allowances on the lines suggested by the Chancellor of the Exchequer in paragraphs 13 and 14 of his memorandum C(67) 128, in conjunction with some extension of the present arrangements for the remission of charges for school meals and welfare milk, and including, for consideration, a reference to further study of a housing allowance.

2. The attached draft statement has been prepared accordingly. It assumes policy decisions on the following points, on which there was general agreement among the Ministers concerned:

(a) That family allowances should be increased from the end of October by 5s. a week for fourth and subsequent children of families.

(b) That the improvement in family allowances from April, 1968, subsuming as it would the increase made in October, should take the form of a uniform increase for each child, and should not, for example, vary with the age of the child and the size of the family, or take the form of an increase in the upper age limit of entitlement.

(c) That the charge for school meals should be increased from next April from 1s. to 1s. 6d., and the price of welfare milk should be increased from 4d. to 6d. a pint; that the remission arrangements for school meals should be extended to all fourth and subsequent dependent children; and that the arrangements for free welfare milk tokens should be extended to all third and subsequent children (an expectant mother counting as a child for this purpose).

(d) That specific reference should be made to help for the educationally "deprived areas", referred to in the memorandum of the Secretary of State for Education (C(67) 9).
(e) That reference should be made to further study of the housing allowance type of scheme.

3. In respect of the increase in family allowances from April, 1968, three alternative increases in rates are given in the statement – 5s., 7s., and 10s. While there was some support among the Ministers concerned for increases of 5s. and 10s., the preponderating view favoured an increase of 7s.

P.C.G.W.

70, Whitehall, S.W.1.

17th July, 1967
DRAFT STATEMENT ON FAMILY ENDOWMENT

The problem of family poverty is complex and there is no simple or single solution to it; nor can poverty be removed overnight. Our attack on it must therefore have many aspects and include long-term as well as short-term plans. Our intentions are as follows:

2. First, we intend to increase by 5s, the family allowance for fourth and subsequent children at the same time as we put up National Insurance and Supplementary Benefits at the end of October this year at a cost of about £10 million net in a full year. It is the largest families that are most in need. There are more than 1 million fourth and subsequent children in 609,000 families.

3. In April, 1968, we will increase the family allowance for second and third children (there are more than 4½ million) by 5s., 8s., 10s., etc., net of tax and other adjustments, will in a full year be about £62 million, £87 million, £121 million, including the interim increase I have mentioned.

4. Such a sum could be raised in a number of ways. But it must be left to my right hon. Friend the Chancellor of the Exchequer to propose, at the right time and in the light of all the relevant circumstances, the method or methods by which the necessary revenue could be raised.

Clearly an examination of income tax child allowances with a view to raising some part of the money needed would seem logical in this context.

5. We are much concerned that those entitled to school meals and welfare milk free or at reduced prices often do not take up their entitlement. We shall organise publicity campaigns to see that people are quite clear what they can get and that they get it. We are reviewing the arrangements so as to make it easy for them to exercise their rights without embarrassment. We shall improve our provision for large families by extending free school meals to the fourth and subsequent children in a family, and free welfare milk to the third and subsequent children under five (an expectant mother counting for this purpose as a child under five). This will be in both cases regardless of income, and will take effect by next April. For those who do not qualify for meals or welfare milk free or at reduced prices, we feel bound to increase the charge for both. The present prices were fixed in 1957 and the cost has since greatly increased. Continuation of the present level of charge...
involves a claim on our resources that can no longer be justified. We intend next April therefore to increase the price of school meals by 6d, and of welfare milk by 2d a pint. There would still be a substantial element of subsidy in these prices.

6. We recognise that the measures we propose cannot alone solve the complex problem of family poverty. Some of the factors which cause hardship vary widely between one family and another with similar incomes. The most urgent needs are to tackle the cost of housing and the poverty of the environment in which some children grow up.

7. Rents and rates can bear hardly and very variably on families of modest means. Our rate rebate scheme and extension of local rent rebate schemes, which apply to the person as distinct from the house, are of great and increasing help to the needy, but this is a continuing problem and we are investigating further ways of extending help of this kind to people in private as well as in council houses. We shall open discussions with local authorities and other representative bodies and hope to bring forward further proposals as soon as possible.

8. But we must also be concerned with the physical environment, the geographical black spots of poverty and deprivation. The relief of poverty is not solely a matter of cash benefits to individuals; it is also a matter of social capital. It was this which the Plowden Report had in mind when it spoke of educational priority areas. The Government propose to make available a school building allocation of £3 million a year for these areas, on top of the existing building programmes.

9. In the context of these plans we put forward our proposal for immediate increases in family allowances.
CABINET

THE OIL SUPPLY SITUATION

Memorandum by the Minister of Power

Supplies

The supply position is improving slightly. In general, it remains a tanker problem but this is being eased somewhat by the growth of exports from Libya and the Levant pipelines. There are signs that Libya is increasing the number of countries (other than the United States and United Kingdom) to which it permits exports; Iraq has confined exports to certain countries in Southern Europe. This means that Southern Europe, including France - which throughout has drawn supplies from Algeria - will immediately be better off than Northern Europe, including ourselves. The main oil companies through their supply programmes are adjusting for this as fast as possible; though tanker rerouting imposes delay, the rearranged pattern of supply is now settling down.

2. For the United Kingdom itself, the Arab ban remains in being, and with Nigerian oil exports stopped, supplies are being programmed to us from Venezuela, the United States of America, and Iran, where production has been stepped up to the limit. Of our three main suppliers, accounting for three-quarters of our imports, BP are relying on Iran; Shell on Iran and Venezuela; and Esso on Venezuela and the United States of America. I shall keep in close touch with the companies to see that the United Kingdom gets at least its fair share of deliveries. So far it is satisfactory that they have been able to arrange this despite the ban on United Kingdom and United States destinations. On exports, I am discussing with the oil companies how best to strike a balance between our immediate needs (to keep oil here and to import products from overseas refineries) and our long-term interest in keeping export outlets. The industry will be increasing product imports; some useful amounts, I hope, will be drawn from Italian refineries running Libyan crude but this will have to be done discreetly and perhaps indirectly, to avoid risk of Libyan counteraction. The Russians have again refused to supply us.

United Kingdom Stocks

3. The improved supply prospect was reflected in the estimate of stocks as at end-September which I circulated earlier this week (C(67) 134). I shall have revised estimates in time to report them orally to my colleagues when we meet. The end-September forecast, although 5 million tons or nearly a third below normal, is not critical, and since
some smaller companies have not yet received programmes from their foreign parent companies; it is, if anything, a cautious estimate. We must bear in mind also that in addition the Government holds in stock about five days' supply against just such an emergency as the present.

Particular Products

4. I attach in an annex the stock position product by product. These are companies' stocks, and they reveal no immediate cause for anxiety except over naphtha and fuel oil. The naphtha position is very serious. In the Western world there is an absolute shortage at the present time. Naftamondial, the Zurich oil traders, have had their proposal to supply Russian naphtha via Rotterdam turned down by the Russians. The first reaction from Rumania has been that there is probably nothing available for the rest of this year (but we still await their considered advice). United Kingdom refiners are maximising their production but nevertheless the oil industry may shortly have to cut its customers in the United Kingdom by an average of 20 per cent. Consultations are being pressed ahead with our two main consumers (the Gas Boards and the petrochemical industry) on the use of alternative fuels and how best to apportion the short supplies of naphtha.

5. Fuel oil stocks still give some grounds for concern in view of the much greater demand expected in the winter, when stocks are normally run down. The industry is planning to draw extra supplies from the Western Hemisphere, and this should shortly be reflected in the forward stock position.

Prices

6. I have had no application for a further price increase, though we know that not all companies were fully covered by the recent increase. Overall, the price increases on the Continent have been of the same order as here but with considerable variations e.g. a good deal higher in Western Germany and much lower in France and Italy. I shall need to keep a close watch on the price situation to ensure that our domestic prices are right in relation to the companies' costs in the United Kingdom and to price levels in Europe which could, if they rose steeply, tend to draw off supplies from the United Kingdom market.

The Immediate Future

7. Hitherto the oil industry has been concentrating on the immediate and critical task of rerouting supplies to get oil flowing in the maximum possible quantities to this country, and the supply and stocks forecast made by my Oil Industry Emergency Committee have been related to the current quarter (end-September). This is a short period, especially with the approach of winter, on which to base decisions on petrol rationing or the restriction of industrial oil consumption. I have therefore asked the OIEC to provide by the end of this month its best estimates of the position at the end of the year.
8. Officials of the Departments concerned have examined the balance of payments costs. Their present estimate is that if the dislocations last for six months, i.e. till the end of November, the additional cost to the United Kingdom balance of payments would be about £85 million, of which some £15 million would fall in 1968. The largest item in these costs is the charter of tankers (almost wholly foreign-owned) at very high rates, but the purchase of some high-cost oil in the Western Hemisphere is also allowed for. The estimate takes account of the effects for the business of British oil companies overseas, where Shell hope to recover the extra cost of supplies and perhaps even do better, while BP are likely to fall short by £10 million or so of recovering costs. My officials are keeping these estimates under continuous review as the situation develops and are consulting with other Departments and with the industry on measures which might minimise these balance of payments' costs.

9. I also arranged for officials to consider whether even if supplies prove adequate, rationing and other restrictions of consumption might nevertheless be desirable on balance of payments' grounds. They estimate that in the period September (the earliest the restrictions could be introduced) to November, about £15 million might be saved on oil account by the restrictions mentioned in paragraphs 10 and 11, and about £25 million by more severe cuts, especially on industrial fuels. On the other hand, the effect of the cuts on industry in general, while incapable of close calculation, could easily be so great as to result, through a fall in exports, in a net loss to the balance of payments. Thus restrictions are not recommended on balance of payments grounds.

Restriction of Consumption

10. This is the position against which we have to judge whether immediate action is required to introduce measures to ration motor fuel or restrict industrial oil consumption.

Planning for petrol rationing is far advanced and the scheme could be launched from the end of this month. Before rationing becomes effective a six week period is required for the issue of ration books and for dealing with applications for supplementary allowances. Rationing could not therefore become effective before mid-September, and only then if we announce immediately that the final preparatory steps are to be taken and coupons issued. If we did this it would not of course commit us to ration in mid-September, though it would be widely assumed that this was the intention.

11. Restrictions on industrial oil consumption would be handled by the oil industry under my instructions. The scheme would be to reduce deliveries to industry by a given amount - probably 10 per cent initially. Before it could be introduced there are two further stages of planning to be undertaken, first, completion of the central planning, which will take another two weeks and will proceed in any event; and second, the preparation of detailed delivery schedules by the oil industry, which would take about four weeks. This scheme also could not be introduced before early or mid-September.
12. On the basis of the supply and stock position and the industry's forecasts to end-September I do not think it is necessary to go ahead at once with the issue of ration books in preparation for rationing petrol from mid-September. Stocks of petrol at the end of September are estimated at only 2½ weeks below normal and, if rationing were introduced, the savings from the cuts envisaged would amount to a reduction of no more than 4 per cent or thereabouts in total sales of oil products. With demand declining in the winter months there might even be a risk that a surplus of petrol would arise resulting in a cut back in refinery runs and a reduction in the supply of other very important products including naphtha.

13. On industrial fuel, the central planning by the oil industry for restriction of consumption should certainly be completed, and I can then review early in August whether the supply situation makes it necessary to proceed with the detailed scheduling of deliveries in preparation for restrictions.

Future Uncertainties

14. The broad rule of thumb is that some shortages are liable to occur when overall stocks get down to 7 or 8 weeks supply. I have asked for the industry's specific advice on minimum stock levels so that I can judge the need for restrictions with greater precision. But there are of course unpredictable factors to be taken into account such as the possibility of a very bad winter and of further deterioration in the overseas supply position.

15. On the latter possibility, this is more a matter for the Foreign Secretary. An extreme case would be if Arab oil exports would again cease altogether, as they did for a short period in June. A less extreme case would be the reclosure of the Levant pipelines and of the Libyan export terminals. Syria has a record of capricious behaviour, and in Libya although the Government is increasingly in control of the situation the workers are subject to Egyptian and Algerian influence. If this did happen, the consequent tanker shortage would reduce supplies to Western Europe as a whole severely. Supplies, moreover, would be lost while tankers were being rerouted. Altogether, if these sources were lost for, say, a month, a stockdraft of 10 to 14 days' supplies might be needed to help meet normal demand. If Nigerian oil were to begin flowing again in the last quarter of this year, the position would of course be very much improved.

Conclusion

16. The general supply and stock situation has improved slightly in the last week or so. The exception to this is naphtha, on which urgent discussions are taking place with the oil, gas and petrochemical industries. I am quite clear that on present information there is no need to decide now to introduce either petrol rationing or restriction of industrial oil consumption; nor do I think it necessary to start the issue of ration books so as to be able to introduce rationing by mid-September. However, the situation remains precarious, and we shall need to review it again as soon as we have the oil industry's forecast of the position at the end of the year. If it shows a deteriorating trend it may be necessary to take the final steps in preparation for restricting consumption. I will report to the Prime Minister on the situation early in August when I have the companies' end year forecasts.
17. As to the balance of payments aspects of the problem, the danger of damage to industrial production from restricting supplies would seem to outweigh the savings on foreign exchange expenditure on oil supplies. I do not therefore think that we should introduce rationing on this account, since it might do more harm than good. We shall however have to consider very carefully what guidance to give to the oil industry on its restocking problems so as to strike the balance between security of supply and further strain on the balance of payments. Officials are working on this.

18. I invite my colleagues to agree that I should proceed on these lines.

R.W.M.

Ministry of Power, S.W.1.

20th July, 1967
<table>
<thead>
<tr>
<th></th>
<th>Position at 2nd July</th>
<th>10th July</th>
<th>Estimated Position at 21st July</th>
<th>Estimated Position at 31st July</th>
<th>Estimated Position at 30th September</th>
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<td></td>
<td>Product Total</td>
<td>Total</td>
<td>Weeks</td>
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<tr>
<td></td>
<td>m. tons</td>
<td>m. tons</td>
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<td>1.3</td>
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<td>16</td>
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<td>4.8</td>
<td>12</td>
<td>2.9</td>
<td>12</td>
</tr>
<tr>
<td>Other</td>
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<td>1.2</td>
<td>7</td>
<td>0.5</td>
<td>7</td>
</tr>
<tr>
<td>Total stocks</td>
<td>7.8</td>
<td>12.9</td>
<td>11.3</td>
<td>7.9</td>
<td>13.2</td>
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</tbody>
</table>

(1) Product stocks exclude an allowance for exports and bunkers of a million tons.

(2) Total stocks are the product stocks plus the product equivalent of the crude oil stocks.

(3) Normal end-September weeks' supply forward.

Note: In addition, the Government holds peacetime emergency stocks of 1.1 million tons in the form of gas oil (0.6 million tons); fuel oil (0.2 million tons); and very low grade motor spirit (0.3 million tons).
21st July, 1967

CABINET

PUBLIC SECTOR PRICES

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

With the end of the period of severe restraint we are facing a substantial number of proposals for price increases, especially in the public sector (see Annex). If we were to agree to all these proposals our prices policy could hardly survive for long. This seems therefore the right moment to take stock of the position and, in particular, to consider the principles against which proposals for price increases by the nationalised industries should be considered.

Justification for a prices policy

2. The need to pursue an active and effective prices policy is not in dispute. In the first place we can expect to secure moderation in wage and salary increases only if it can be shown that action is being taken to hold down prices. Secondly, maintaining a continual pressure on prices forces industry in both the public and private sector to apply itself energetically to achieving improvements in efficiency; relaxation of this pressure would put us back in the position where management tends to look to price increases as the automatic remedy in every case where the budget is not balancing.

Limitations of the prices policy

3. If price restraint were pressed too far it could become self-defeating. Restraint cannot be pressed to the point where important firms in an industry face insolvency; and to deprive industry of the revenue needed to build up capital can, by restricting new investment, work against efficiency. Moreover, prices help to relate demand to the cost of production and if they are depressed too far the consumer is given an unfair claim on available goods with the consequent risk of increased imports and reduced exports. Similarly, in the public sector an attempt to hold prices when costs are going up can lead to increasing subsidies that eventually become too big to be sustained and also blunt the incentive to raise efficiency.

4. Prices policy must have regard to all these considerations and the agreed criteria for price increases in the next twelve months recognise that there is a limit to the pressure that the policy can apply in support of wage restraint and greater efficiency. In the private sector the policy should at least secure delay in putting up prices and we should expect some useful results from insistence that cost increases should as far as possible be absorbed through greater efficiency.
Public sector prices

5. We cannot expect the policy to work satisfactorily in the private sector unless it is seen to be administered effectively in the public sector. The impact of price increases in the basic services provided by the nationalised industries is widely felt through the economy and the decisions which are taken on the present round of proposals for price increases will have an important bearing on the prospects of maintaining a reasonably effective prices and incomes policy. Moreover, to the extent that the nationalised industries enjoy quasi-monopolistic conditions of supply and do not compete directly with imports the market pressures on them to eschew price rises are weaker than in the private sector. We have therefore a double reason for doing all we can to hold down prices in the next few months.

6. In the long run the only sound way to do this is by increased efficiency and cost-reduction, for which there is in my view very great scope in the public as in the private sector. In the short run, however, we have (within limits and subject to carrying the Boards with us) an option which does not exist in the private sector: we can decide, as a matter of policy, to transfer some of the burden of financing those industries from the consumer to the taxpayer.

7. I am aware that the scope of this option is strictly limited. Most nationalised industries are working to financial targets which are intended not only to ensure an efficient use of resources in the economy as a whole but to provide them with a readily understandable measure of performance; and unless we think it desirable for economic or social reasons to alter these targets, we must not press the industries too far on price restraint when that clearly conflicts with the attainment of the targets. Similarly, with those nationalised industries, notably the railways and London Transport, where the target policy is temporarily in abeyance, we are working out ways of subsidising those parts of their operations which serve wider social purposes; but once this is done the criteria for price changes over the rest of their operations will have to be the same as applies elsewhere in the public sector.

8. However, as a temporary expedient with the object of advancing long term efficiency, I consider that over the next few critical months for prices and incomes policy we should be prepared to relax the existing financial obligations of individual nationalised industries proposing increases in price. I do not suggest that it would be practicable to impose a standstill on all price increases in the public sector at the present time. But I believe that we should refuse to authorise an increase (where the product or service in question is economically significant) until we have been satisfied - by the provision of more convincing evidence that we have been given in the past - that all practical steps to avoid the increase by cost reduction have been taken or are set in train.

9. There is unquestionably scope for very big improvements in efficiency throughout British industry, whether private or publicly owned. This is why we have set up Development Committees in the private sector. I know that the nationalised corporations generally are conscious of the need to reduce costs and, encouraged by the sponsoring Departments, have already a number of useful studies under way. But, while the need for this may not be of equal force in every
case, it is most desirable that progress on the improvement of efficiency, in the nationalised industries should be speeded up. To this end we must devise the means of ensuring that the industries address themselves vigorously to such questions as manning, plant utilisation and efficiency generally. I realise the importance of avoiding the appearance of trying to run the nationalised industries' business for them; nor would it be practicable to try. But we must seek to enlist their co-operation in the development of machinery to secure the objective of increasing efficiency and cost reductions, e.g. by setting up a special unit for assessment of performance whether operating within an individual industry or independently.

10. I am fully aware of the complexities of the field that we should be entering and the appropriate machinery will need careful and detailed consideration. But I am firmly convinced that the way of achieving greater efficiency in nationalised industry must be explored urgently.

11. Clearly we cannot expect to settle the form of the new machinery before decisions have to be taken on the proposals for price increases now before us. I deal with one of these -gas- in some detail below. For the rest, I consider that the proposed increase should not be approved until it is demonstrated to our satisfaction collectively that the nationalised industry concerned is fully alive to the need for solving its problems by cost reduction rather than price increases and is taking action to this end, even if this should mean a delay of anything up to three months in reaching a decision. Those industries which have already made progress in this direction will obviously find this less onerous than others.

12. I recognise that, in practice where the increase cannot be avoided by means of cost reductions, this means releasing the industry temporarily from its obligation to achieve the agreed financial target. But, provided this relaxation of the obligations to achieve the target is limited specifically to the effect of the delay of up to three months mentioned in the preceding paragraph and we make clear that it is not to be taken as implying a change of the policy of financial targets in favour of a policy of subsidisation of nationalised industry, I consider that we should be ready to resort to this as a price well worth paying if, as I hope, it results in a more effective and single minded pursuit of cost reduction by the management of nationalised industries.

13. Where, after detailed examination on these lines, public sector price increases have to be accepted as inevitable, the most careful consideration must be given to their public presentation. This should invariably feature what is being done to reduce costs and improve efficiency. On reflection I do not think that we paid enough attention to this, when we authorised the increase in electricity prices earlier this year. Although some reference was made in the announcement to the need for costs to be kept under control, the impression left in the public's mind appears to be that prices have been put up to meet an arbitrary target and that the main cause of the increase in costs was the lower growth of the economy. We must do better in future.
Post Office prices

14. As far as the Post Office is concerned, I understand that the Postmaster General wishes the price increases be proposed to be referred to the National Board for Prices and Incomes and I am in favour of this. (The postal increases envisaged involve a radical change in the pattern of postal services which the Postmaster General will no doubt mention.) I do not advocate automatic reference to the Board of proposed increases in prices by nationalised industries; decisions, whether in relation to the public or private sector, to make a reference to the Board depend on all the circumstances of the case. But on the other hand development of machinery to stimulate the achievement by the nationalised industries of greater efficiency does not preclude the reference of a particular proposal to increase prices if we consider that independent examination is desirable.

Gas prices

15. The arguments put forward by the gas industry to justify its proposals are in my view the weakest of those now before us. The industry can look forward to cheaper gas in the 1970's although there is a major problem of capital investment to be met between now and then. Moreover, the industry has to expand its market so as to absorb within a few years two or three times as much gas as it consumes at present and its pricing policy should reflect this. In these circumstances, it would, I believe, be right to alter the financial target given to the industry to reflect its changing circumstances. Such a policy would be in accordance with the general principles set out in the Draft White Paper (Nationalised Industries - a Review of Economic and Financial Objectives) circulated by the Chancellor of the Exchequer to the Economic Policy Committee (EN(67) 50). In that Draft White Paper it is stated (paragraph 22): "It is therefore desirable that prices, in addition to recovering cost, should be reasonably related to costs at the margin and should be designed to promote the efficient use of resources within industry ... . In the long run the main consideration would be the cost of supplying, on a continuing basis, those services and products whose separate costing is a practical proposition, i.e. long-run marginal costs".

16. I believe that it would be in accordance with these general principles, with which I agree, for us to allow for some temporary reduction in the gas industry's financial target. I suggest that this should not be allowed to lead to individual Gas Boards running significantly into deficit but that we should not seek price increases from those Boards which are likely to be in balance or from those which will have a small surplus but will not reach their present financial objective. This policy would lead to a substantially lower increase in prices than the lower figure (5½ per cent) proposed by the Minister of Power.
17. At the same time, I think we should put further pressure on the Gas Council to seek economies through improvements in productivity and efficiency and that it should be known that we are doing so. I have in mind, for example, that the Council might be asked to carry further the work which I understand they are doing by way of systematic comparisons of the productivities achieved in different fields by the various Gas Boards, their relative maintenance and other costs, etc. (We are, after all, encouraging the Economic Development Councils to make interfirm comparisons of productivity and performance in their own industries and there is every reason for doing the same in the public sector). This might be combined with a request that they should prepare a manpower budget in which they seek to achieve stated productivity improvements within a given time and thus either release manpower or reduce the previously expected expansion. They should also be asked to look again at their standards of manning. A review of the part that Management Consultants are playing in this field might also be of value.

Conclusion

18. I invite my colleagues to agree -

(i) that we should adopt the general approach to public sector prices outlined in paragraphs 5 - 8;

(ii) that we should examine urgently the need to set up new machinery on the lines set out in paragraphs 9 and 10;

(iii) that the proposals for price increases now before us should be dealt with as proposed in paragraphs 11 - 17.

M. S.

Department of Economic Affairs, S. W. 1.

21st July, 1967
## Public Sector Price Increases

### Increases Already Approved

<table>
<thead>
<tr>
<th>Industry</th>
<th>Details of increase</th>
<th>Estimated increase in revenue in full year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electricity</strong></td>
<td>Tariffs to be increased by an average of 10 per cent on 1st September 1967 to enable the electricity industry to achieve its financial target of 12.4 per cent in 1968-69.</td>
<td>£110 million</td>
</tr>
<tr>
<td><strong>British Railways</strong></td>
<td>(a) Selective increases in fares and freight charges introduced from 1st April 1967 following the remit from Cabinet that BRB's deficit should be reduced by £5 million in 1967-68.</td>
<td>£25 million</td>
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<tr>
<td></td>
<td>(b) Increases in fares in the London area by BRB amounting to about £500,000, in line with the LTB fare increases which have been agreed (see 3 below), will be introduced in September 1967.</td>
<td>£50.5 million</td>
</tr>
<tr>
<td><strong>London Transport</strong></td>
<td>Increases in fares authorised by the Transport Tribunal in July 1966 are to be introduced in September 1967. Increased revenue is estimated at £150,000 for LTZ and £500,000 for BRB.</td>
<td>£150,000</td>
</tr>
<tr>
<td><strong>HMSO</strong></td>
<td>Increases in the prices of HMSO standard publications will be implemented shortly. The increases are designed to enable HMSO to achieve a surplus of £50,000 (agreed with the Treasury in §54) on standard publications</td>
<td>£55,000</td>
</tr>
<tr>
<td><strong>Rents of Government-Held Houses</strong></td>
<td>Increases have been approved in the rents of &quot;decontrolled&quot; Government-owned houses designed to keep these rents broadly in line with rents in the private sector, pending a detailed review of rents in 1970. The present deficit is £450,000 per annum.</td>
<td>£180,000</td>
</tr>
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**Total increases approved:** £115,885 million
The Minister of Power has recently proposed that the financial objective of the gas industry should be raised to 6.8 per cent (equivalent to that of the electricity industry) which would involve an average increase in tariffs of 7½ per cent. An alternative proposal for increases to enable the industry to achieve its present financial objective of 6.2 per cent in 1968-69 would involve increases averaging 5½ per cent.

(a) at 5½ per cent £23 million  
(b) at 7½ per cent £32 million

BRITISH RAILWAYS

(a) The Minister of Transport has proposed increases in coal and parcels charges and passenger fares in order to offset BRB’s increasing deficit, now estimated at £143 million in 1967-68. £8 million  
(b) The Minister of Transport has also proposed increases in BRB passenger fares in the London area in line with the proposed increases by LTB (see below) £1 million

LONDON TRANSPORT

The Ministry of Transport has proposed increases in fares, to meet the LTB’s increasing deficit which is now expected to be £11 million in 1967-68. The proposals would increase LTB’s revenue by about £20 million. BRB will apply sympathetic increases in passenger fares which are expected to amount to about £1 million. £3.5 million
<table>
<thead>
<tr>
<th>Industry</th>
<th>Details of increases</th>
<th>Estimated increase in revenue in full year</th>
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<tr>
<td>British Road Services (Parcels)</td>
<td>The Minister of Transport has proposed increases in the charges for parcels, averaging 7½ per cent designed to improve the profitability of BRS. Profits have fallen in 3 years from 21 per cent to 5 per cent on capital employed. The proposed increases would bring the return on capital up to about 14½ per cent.</td>
<td>£1.5 million</td>
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<td>The Financial Secretary to the Treasury has proposed an increase of 50 per cent in the prices of Hansard, with the object of reducing the subsidy from £120,000 per annum to £100,000 per annum</td>
<td>£20,000</td>
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<td>Total increases proposed but not yet approved:</td>
<td>£51.02 million</td>
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<td>&quot;The Postmaster General is proposing increases in charges of about £30 million a year on postal services and up to £40 million a year on telecommunications, to come into effect in 1968-69. The proposed increases are designed to achieve the Post Office's likely new financial targets, having regard to the trend of costs and its growing capital needs. They will also enable the new Corporation to start operations on a sound financial basis. The Postmaster General wishes the proposals to be referred to the NBPI.</td>
<td>£70 million</td>
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<td>TOTAL OF ALL INCREASES</td>
<td>£236.905 million</td>
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The Minister of Transport has proposed increases in the charges for parcels, averaging 7½ per cent designed to improve the profitability of BRS. Profits have fallen in 3 years from 2½ per cent to 5 per cent on capital employed. The proposed increases would bring the return on capital up to about 12½ per cent.

The Financial Secretary to the Treasury has proposed an increase of 50 per cent in the prices of Hansard, with the object of reducing the subsidy from £120,000 per annum to £100,000 per annum.

Total increases proposed but not yet approved: £51.02 million

The Post Office are considering increases in charges of about £25 million on postal services and £30 million on telecommunications to come into effect on 1st April 1968. The proposed increases, which are based on the existing financial target of 8 per cent, are designed to meet increases in costs and to enable the new Corporation to start operations on a sound financial basis. The Postmaster General wishes the proposals to be referred to the NBPT.

Total of all increases: £221.905 million
RAILWAY POLICY: MAIN REPORT OF JOINT STEERING GROUP

Memorandum by the Minister of Transport

I now attach a copy of the Main Report from the Joint Steering Group under John Morris' chairmanship which I and the Chairman of the British Railways Board (BRB) set up to review future railway policy. I also attach a copy of the Interim Report from the Group, which they submitted to me and the Chairman in January; it was not necessary to put this to Cabinet at the time.

2. The Main Report makes recommendations in two main fields - finance and management structure. The financial recommendations have to be read in conjunction with those included in the Interim Report which dealt specifically with Exchequer grants for unremunerative passenger services which BRB are required to retain on broad social and economic grounds.

Grants for Unremunerative Passenger Services

3. These grants would cover the extent to which the revenue of each of these services was likely to fall short of the full cost of providing the services (including interest and depreciation). Grants would normally be fixed on a three-year basis in advance, and would not be adjusted in arrears to conform with actual costs; this will provide the BRB with an incentive to run the services economically, and to attract the maximum revenue. The effect of these grants should be that the BRB would not be out of pocket overall on the passenger services which they are required to continue to provide for social reasons. Further details of the proposals for these grants are set out in Section 3 of the Interim Report, paragraph 3.21 of which gives details of the legislative provisions recommended by the Group. These proposals were approved by the Ministerial Committee on Economic Policy at their meeting on 20th March and are now being incorporated in the Transport Bill.

Main Report - Finance

4. The Group have concluded that, even taking account of the "social" grants recommended in their Interim Report and of the grants which they now recommend for track rationalisation, BRB would be likely still to be in deficit in 1974 to the extent of somewhere between £5 million and £55 million. They accordingly conclude that there should be a substantial write-off of capital so as to bring the BRB to a break-even position in the early 1970s; the detailed figures for
this capital reconstruction should be based on neither too optimistic nor too pessimistic a forecast. The Group further recommend that the valuation of the BRB's assets should be scaled down to what is represented by the new capital debt. A summary of these recommendations is at paragraph 2.42.

5. The effect of the recommendations is that the whole of the "suspended debt" of some £700 million would now be finally written off (no interest has been paid on this debt since it was placed in suspense by the 1962 Transport Act); a further slice of the "live" capital debt would also be written off, though detailed discussions will be necessary between my Ministry, the Treasury and BRB over the next few months to determine the exact amount.

6. The writing-off of this live debt will of course reduce the BRB's interest burden. It will also have the effect of reducing the depreciation provisions in the BRB's accounts. This will make the immediate net revenue position easier, but it will also mean that the BRB will in future have a smaller cash flow available to finance new investment. This should impose a much tighter control on future investment, both by the Ministry and within BRB itself.

7. One important element in the financial recommendations relates to track rationalisation. The Group reached the conclusion that, although the "standby capacity" to which the Chairman had often referred could not be proved to exist as a permanent element of any foreseeable railway network, there was certainly surplus capacity in the system which could and should be eliminated. This surplus capacity is the result not so much of excess route mileage, but of excess track mileage and signalling capacity. In other words, the system is not necessarily too long but in many places it may be too wide. The Group concluded that some £15 million a year could be saved if the system were "slimmed" to a capacity properly related to the expected traffic, and they recommend that this slimming process (which will take several years) should be encouraged by a fixed grant of some £15 million in the first year, diminishing by annual steps to zero at the end of the fifth year. This would compensate the BRB for their historic liability resulting from the over-provision of track capacity in the past, while giving them an incentive to remove it as soon as possible. Relevant paragraphs of the Report are 2.20 to 2.23 inclusive.

8. The final effect of all these recommendations, including those in the Group's Interim Report, should be to put BRB, in the early 1970s, in a position where (after taking account of "social" grants) they could be expected to break even and to go on doing so. There would be no further excuse for running into deficit and there would consequently be a much better basis on which to judge the efficiency of the Board as a management team. There would no longer be provision for deficit grants from the Minister (except, perhaps, for a very short transitional period).
Main Report - Management Structure

9. The Group have concluded that the Board ought to spend far more time than it does at present on questions of broad policy and in particular on long-term planning. To this end they have proposed several specific changes, while recognising that not all the changes they suggest can necessarily be brought about at once.

10. They recommend that ultimately the Board should consist largely of non-functional members, and should be smaller than at present. Although the members would not have specific Departmental responsibilities, they would have spheres of interest and perhaps co-ordinating roles which might well change from time to time. This is a pattern of organisation which is well known in the industrial world, although many nationalised industries have Board members with specific functional responsibilities.

11. The Group recommend that there should be two members of high status and responsibility to cover the fields of financial policy and the co-ordination of long-range planning; they may well be Vice-Chairmen. They also recommend that the Chairman should be relieved of day-to-day responsibility by the appointment of a "Chief General Manager" who might well also be a Vice-Chairman or, specifically, the Deputy to the Chairman. He would co-ordinate commercial, operating and technical requirements in respect of both passenger and freight traffic, and would in general be responsible for the day-to-day running of the railways. Although the load on such a Chief General Manager would be very heavy, he should be able to carry it with appropriate delegation to Board members and to other staff.

12. It is not intended that the Chairman of BRB should become a mere figurehead. He would continue to be responsible for liaison with the Government, and he would be able to spend much more time on long-term planning than is possible under the present arrangements. He would also have more time to devote to top level management planning problems.

13. In spite of their general preference for non-functional Board members, the Group recognise the great importance of personnel and labour relations; they recommend that there should be a Board member specifically responsible for the longer term development of labour relations in the industry.

14. The Group recommend the appointment of at least three part-time members of high ability and experience. They also recommend that the BRB should be required to produce a general scheme of organisation for the Minister's approval on the lines of Section 4 of the Iron and Steel Act, 1967. This scheme could deal in particular with relations between the Board and the Regions, but in any case they recommend that the statutory Regional Boards set up by Section 2 of the Transport Act, 1962, should be abolished. Their recommendations on management structure are summarised in paragraphs 4.13 to 4.25.
Other recommendations

15. As my colleagues will see from the summary of conclusions and recommendations in Section 48, the Report deals with various historic obligations on the BRB; and in particular recommends that these should be taken into account in the capital reconstruction which they recommend. Legislative changes will be required to give effect to the Group's detailed recommendations, which are set out in Appendix C, on road bridges over railways and museums and historical records.

Consultation with the Chairman

16. I have discussed the Report with Sir Stanley Raymond, and have told him that I would myself be disposed to accept all the main recommendations of the Report. Sir Stanley accepts the financial recommendations, and he also accepts some of those on management structure, including all of those involving legislation. But he wishes to have more time to consider the rest of the recommendations on management structure, notably those in favour of a "Chief General Manager" and a non-functional Board. I am confident that further discussion will result in acceptance of all the recommendations.

Views of the Ministerial Committee on Economic Policy

18. I have now consulted the Committee (EN(67) 21st Meeting) and they have generally endorsed these proposals.

Further Work for the Group

19. The Group will be dealing in later Reports with other subjects such as investment control and internal financial control, but in addition I shall also have to consider separately whether any further changes are required in the statutory relations between the Board and Ministers in the light of the new situation resulting from the present recommendations.

Publicity

20. The Report is confidential and should remain so for the present, but it will be necessary to consider the extent to which it, and in particular the recommendations, should be made public in due course. The main recommendations should certainly be included in one of the White Papers on Transport Policy which I propose to publish in the autumn. I shall be considering with the Chairman of BRB whether the Report as a whole, or an edited version, should be published, and there will be appropriate consultation with my colleagues on the subject.
Conclusion

21. I am anxious to obtain my colleagues' agreement immediately to the implementation of the main recommendations in the attached Report, so that the Parliamentary draftsmen can make an immediate start with the drafting of the necessary provisions for the Transport Bill.

22. I therefore seek my colleagues' comments on the Report in general, and their agreement in particular to the inclusion in the forthcoming Transport Bill of the legislative provisions summarised in paragraph 4.38 of the Report.

B. A. C.

Ministry of Transport, S. E. I.

21st July, 1967
Railway Policy Review

Joint Steering Group

Chairman
Mr. John Morris M.P.
Joint Parliamentary Secretary
Ministry of Transport

Report to the Minister of Transport and the Chairman, British Railways Board

July 1967
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SECTION 1

INTRODUCTION AND SUMMARY

1.1 The full terms of reference for this Joint Review of the railway industry, and the membership of the Group, are contained in the Annex to the White Paper on Transport Policy (Cmnd.3057). In our Interim Report we said that we intended to submit this, our main report, during the course of the summer.

1.2 We have met, in all, nineteen times as a full Group (one meeting extending over two days) and a great deal of work has been done by Sub-Committees and individual members, which in particular has involved the independent members of this Group giving up very many days of their time to the work of the Inquiry. As an example only, the Sub-Group which reviewed the Board's financial estimates met five times in nine days.

1.3 We much regretted the temporary absence on sick leave of Mr. James, and the fact that Mr. Margetts has been ill for several months, and has only just resumed duty. We were glad that Mr. H. C. Johnson, formerly Chairman and General Manager of the London Midland Region, and now a Vice Chairman of the Board, was able to attend in place of Mr. Margetts and Mr. W. I. Winchester, Chief Officer (Financial Research), in place of Mr. James.

1.4 The present Report covers our recommendations on the overall financial structure of the railways, and on the overall management structure and organisation which we think most appropriate for the future. We should make it clear that on both issues the Group have concentrated on the matters likely to require legislation; a great deal of further detailed work will be involved.

1.5 Section 2 of this Report sets out our financial recommendations and is based on work by the Board and by Cooper Brothers. Our main recommendations are:-
1.5.1 that the aim should be for the Board to "break even" by the early 1970s;

1.5.2 that, in addition to the specific grants for unremunerative passenger services recommended in our Interim Report, there should be a specific grant, limited in time and reducing over a period, towards the rationalisation of track;

1.5.3 that the capital debt of the Board should be drastically written down;

1.5.4 that this writing down should take account of the continuing obligations of the Board in respect of such matters as bridges and level crossings and certain superannuation liabilities;

1.5.5 that the value of the assets should also be written down; and

1.5.6 that there should no longer be provision for deficit grants, except on a transitional basis.

1.6 Section 3 of the Report contains our recommendations on management structure. As we make clear in that Section, we had the benefit of a very full submission by the Board, and Mr. Pears, the Senior Partner in Cooper Brothers, gave us great assistance by interviewing each member of our Group, and preparing a paper which summarised and collated our individual views. This greatly eased the course of our discussions, as also did a further paper by Mr. Pears giving us the benefit of his own views. The main recommendations which we make are:-

1.6.1. that Section 1 of the Transport Act, 1962, should be amended to provide for a somewhat smaller Board;

1.6.2 that Section 2 of the Act, which provides for the setting up of Regional Boards, should be repealed;

1.6.3 that provision should be made requiring the Board to put forward a general scheme of organisation for the Minister's approval within a specified period;
that the Chairman should be given some relief by
the appointment of a "Chief General Manager" who
would have responsibility for the day-to-day running
of the railway;

that two senior members of the Board (who might be
made Vice Chairmen) should be given specific
responsibilities for the broad areas of planning and
finance; and

that apart from this, and the special responsibility of
one member for labour relations, the other Board
members should be free of functional responsibilities.

We consulted the Trade Unions and the views they
expressed on finance and management structure have been taken
into account in the recommendations in Sections 2 and 3. There
were a number of other matters on which the Unions commented, and
which seem to us worthy of mention, and these are set out with
our further comments in Appendix A.

Paragraph (d) of our terms of reference required us
"to assess whether and, if so, to what extent the cost of the
railway infrastructure includes an element of 'standby capacity'".
We have therefore set out at some length in Appendix B the views,
which we accept, of a special Committee which we set up to study
this matter. The main conclusion to which we came in the light
of the Committee's detailed investigations was that it was highly
unlikely that "standby capacity" exists as a permanent element of
any foreseeable railway network. (We are using "standby capacity"
to mean capacity which is additional to that required (a) on
commercial grounds, and (b) for the social services. In
other words, it is surplus capacity which is additional to that
which the railways need for sound commercial reasons (e.g. to
cope with predictable peaks or to assist operational efficiency)).
We are satisfied that as a legacy from the past there is considerable
surplus capacity, actual and potential, in the system. The Committee recommended, and we agree, that a programme of work should be settled to identify this surplus, to assess its costs, and to work out a programme for its elimination. We also recommend that a specific grant should be agreed, on a diminishing basis, with the aim of assisting, and hastening, the elimination of this surplus and the rationalisation of the system. This grant would pay for the estimated maintenance cost of the surplus, both existing and potential, in the system in 1969 and would reduce to zero over a period during which it should be practicable for the railways to rid themselves of it. Appendix B also includes an account of the work now in hand to implement these recommendations. A provisional figure for the cost of this surplus is included in the calculations and recommendations in Section 2 of this Report.

1.9 Paragraph (f) of our terms of reference required the Group to look at the other continuing obligations resting on the Board. A progress report on the work of the Joint Teams whom we set up to look at the various obligations was included in our Interim Report (Part IV of Annex A). We have now reached conclusions on virtually all of these matters, and the financial implications of our recommendations are included in Section 2 of this Report. As will be seen, we conclude that together they amount to a sum of approximately £8m. per annum, and that the most appropriate way of recognising this is by taking account of it in the capital reconstruction, which we have already briefly mentioned in paragraph 1.5 above. The results of these studies are set out at greater length in Appendix C, which includes those of our recommendations which do not directly relate to finance.

1.10 We set out in our Interim Report the recommendations which we made in respect of subsidies for unremunerative passenger services. We now think that it is better to call these money payments "grants", and we refer to them under this title henceforward.
Our Interim Report (Annex A paragraphs 9 and 10) explained that the Consultants were proceeding with the preparation of a form of questionnaire which the Board would use in submitting applications for grants. Considerable progress has been made with this, and the Consultants have now prepared a form of questionnaire which is being used on a sample of some 25 unremunerative passenger services. They have also produced information about the likely overall size of the grant required for this type of service. Appendix D records the work that has been done since our Interim Report, and the current position. As we make clear in that Appendix, we have been kept informed about the progress of thinking on Passenger Transport Authorities, and the extent to which it is proposed that they should become financially responsible for local services in conurbations. We have concluded that the detailed implications are not matters on which we need make recommendations. Appendix D to this Report also includes our recommendations about the treatment of interest in the calculation of grants for unremunerative passenger services, the treatment of capital losses where grants are terminated, problems resulting from the allocation of track costs and the problem of subventions for bus services provided in lieu of withdrawn railway services.

1.11 The Minister and the Chairman may also find it helpful to know the extent of the further work which we have in mind, and the likely timetable. For convenience this can be set out under the six remits which we originally agreed with the Consultants, and which were reported in Annex D to our Interim Report.

Remit 1

1.12 We set up a Costing Progress Committee to review progress by the Railways in developing and implementing the recommendations concerning costing contained in the original report by the Consultants to which we referred in our Interim Report. Progress on this is being maintained by the Board, and a small research
section has been established. We are satisfied that there are no recommendations capable of immediate adoption which are not being developed. Some recommendations will probably require reconsideration in the light of the further report from Cooper Brothers which, as set out under remit 4 below, we hope to receive by the end of July. There are clearly a number of matters on which we shall wish to express a definite view, but we are unlikely to be in a position to do this before the autumn.

Remit 2

1.13 The sample study of 25 unremunerative services to which we have referred in paragraph 1.10 above is now being conducted jointly by the Board and the Ministry, in co-operation with Cooper Brothers. We hope that the results of this will be available in the autumn, and propose to include the main results in a subsequent report to the Minister and the Chairman.

Remit 3.1

1.14 Martech are undertaking a study on train load traffics, the results of which should be available shortly, and the Board are undertaking a separate exercise on wagon-load traffics. We hope that we shall be able to incorporate the results of these studies in a later paper.

Remit 3.2 Marketing Organisation

Remit 3.3 Pricing Policy

1.15 Cooper Brothers hope to submit their initial report to us shortly to be followed by a further report in the autumn on pricing policy.

Remit 4. Review of Budgetary and Financial Control and Management Information

1.16 Cooper Brothers hope to report to us by the end of July, 1967, with a further report by the end of September dealing with procedures for the control of capital expenditure.
We shall have to consider with the Consultants, in the light of the reports referred to above, whether there is any additional work which needs to be done under this remit.

Remit 6. Management Structure

It is clear that some further work will be required under this remit, and we propose to discuss this with the Consultants when their further reports are available.

We shall also be making recommendations under (e) of our terms of reference which requires us to examine the Board’s investment programmes and the criteria for investment appraisal.

Accordingly we shall certainly wish to submit a further report in the autumn, and it may be appropriate, as circumstances develop, to put in short separate reports, rather than a further comprehensive one. We will keep in close touch with officials from the Ministry and the Board on the necessary timetable.

We conclude this Section by emphasising that, as in the Interim Report, our aim has been to provide the gist of our recommendations as shortly as possible, and in the most readable form. All our detailed papers, and the reports from the Consultants, are already available both in the Ministry and in the Board. We have again, therefore, confined ourselves as far as possible to a statement of our main findings and recommendations, with the minimum of supporting material.

Our conclusions and recommendations are summarised in Section 4 of this report.
FINANCE

INTRODUCTION

2.1 Paragraph 3 of the Annex to the White Paper on Transport Policy (Cmnd.3057) said that the social and other considerations which had led to the decision to stabilise the railway network also made it necessary to substitute a new financial framework for that imposed by the Transport Act, 1962. The requirement contained in that Act for the Board to "pay its way" by the beginning of 1968 was now entirely unrealistic and would, if pursued, force it into action which in many cases would be against the interest of the community and inconsistent with the Government's plans. It was therefore necessary for this framework to be amended to provide more realistic and appropriate financial objectives and a new financial framework and discipline.

2.2 In Section 4 of our Interim Report we said that one of the most important tasks implicit in our terms of reference was to review the financial prospects of the Board in the light of current developments and the new policies indicated in the White Paper.

2.3 Whilst it had not been possible for us at the time we submitted the Interim Report to assess the reduction in future deficits which would be brought about by direct grants of the various kinds we had in mind, or by payments by other authorities in respect of specific loss-making passenger services, we thought it clear that there would still be a gap - possibly a large one - between the total of the Board's revenue, including these various grants, and their total costs.

2.4 We explained in our Interim Report that we had set ourselves the aim of viewing the whole of the Board's business as it would be in future years in the light of the Government's
policies, taking account of future increases in efficiency, including those which should result from our current review. We have now completed an exercise on these lines, and can therefore make recommendations as to how the objectives set out in the White Paper can best be achieved. We have only just seen the very recent report by McKinsey & Co. on "Containerisation" which they prepared for the British Transport Docks Board but it is clear that the developments which they foresee could be of great importance for the railways.

2.5 We have looked in great detail at the problems involved in paying grants for unremunerative passenger services, and include some details of our work in Appendix D. It will be impossible to put forward a firm figure for the total of these grants until a great deal more work has been done, but we have agreed a tentative estimate, (paragraph 2.16). We are also in a position, as a result of the work described in Appendix B, to put forward a rough order of magnitude figure for the grant that we recommend in respect of track rationalisation (paragraph 2.23).

We explained in our Interim Report that a number of Joint Teams had been set up to look at the various continuing obligations on the Board to which specific reference was made in paragraph (f) of our terms of reference, and we have now been able (paragraph 2.18) to put an approximate figure to the cost of these obligations. But as we indicated in January, we have come to realise that there is no possibility that these subventions could suffice to take the British Railways Board out of its current deficit position.

REVIEW OF LONG TERM REVENUE FORECASTS

2.6 We therefore thought it right to ask the Board to produce detailed financial forecasts for 1969 and 1974 in order that we could look at the whole financial position as it was likely to be on the best assumptions that could be made. The Board
discussed and agreed with the Ministry of Transport, and other Government Departments, the economic assumptions on which this study should be carried out, and these are set out in Appendix E.1. The Board produced detailed forecasts for both these years, comparing likely levels of revenue and costs, but ignoring interest, and their detailed tabulations are set out in Appendix E.2. These forecasts showed that in the Board's view, on the basis of the assumptions to which we have already referred, and assuming a continuance of present asset values and depreciation policy, they would reach a position of being in deficit to the extent of about £30m. on operating account in 1969, and would be likely to break even on operating account in 1974. But, as we make clear in later paragraphs, they would not be earning sufficient, even taking all the various types of grant into account, to pay interest on the whole of the existing capital debt.

2.7 These forecasts have been examined in some detail by a Finance Sub-Group. Whilst Board representatives attended all the meetings of the Sub-Group and gave such information and assistance as was required, it was agreed that they should not be regarded as members.

2.8 It is clear from this work that looking ahead as far as 1974 involves a considerable degree of judgement, and even speculation. The Sub-Group therefore concentrated their attention on those aspects of the forecasts where the overall outcome appeared to be particularly sensitive to variations in the basic assumptions used. On the cost side, the most important assumptions made by the Board concerned operating performance, the wages level, and the extent to which it would in practice prove possible to run down their manpower. Other key assumptions concerned the national economic environment, and thus demand for rail services and the prices which it would be possible for the Board to charge. The Sub-Group also thought it necessary
to make a provisional examination of the level of investment implied by these forecasts, as it is obviously extremely relevant to remember that the Board's forecasts depend upon the assumption that investment will be available at the rate of about £100m. per annum.

2.9 The Sub-Group were also particularly concerned about the possible effects of inflation. As will be clear from Appendix E1, the Board worked on an agreed assumption that there would be no inflation, and that wages would rise at a rate of 3 per-cent per annum. This is in line with the assumptions used for current Government planning. But the railways might be seriously affected if, in the event there was some degree of inflation, (particularly if their costs were inflated more than those of their competitors or the economy as a whole) and whilst it is not yet possible for us to put forward detailed figures we are arranging for further work to be done on this over the next few months.

2.10 Our views on the Board's figures can be summarised as follows:

2.10.1 While the Board have given us every possible help, and answered all our questions as fully as possible in the time available, many of the most important forecasts are still subject to refinement as a result of further work which the Board are putting in hand, but which cannot be completed before the autumn.

2.10.2 Subject to this qualification, we feel that in general there may be more optimism than pessimism in the forecasts. The following factors need to be taken into account in putting forward a possible bracket of results:

2.10.2.1 The reservations regarding investment and inflation made above.
2.10.2.2 The forecasts assume that there will be a steady expansion in the economy at about 3 per-cent a year; slower growth or fluctuation could damage the railways.

2.10.2.3 The use of 1966 as a base may itself apply a degree of optimism; the 1967 results may now be some £10m. worse than those of 1966. It is unlikely in these circumstances that 1969 could show the improvement indicated in the forecast, despite the increases in charges which the Board have proposed to the Minister.

2.10.2.4 Postulated improvements in locomotive and crew utilisation, and in wagon working, might prove slower and more difficult to realise; this would worsen the results by several £millions.

2.10.2.5 It may prove difficult, even with the special help which will certainly be necessary, to reduce manpower at the rate implied in the forecast.

2.10.2.6 There must be a danger of some traffics, particularly coal, falling short of expectations; on the other hand there is probably scope for increasing receipts through higher charges.

2.10.2.7 Freightliners are still at such an early stage of their development that estimates as far ahead as 1974 must be regarded as somewhat speculative.

Whilst different members may attribute different weights to these various factors they are agreed on the broad conclusions set out in the next paragraph.
Drawing these various threads together, and making a reasonable allowance for the factors which might occur in combination, we have reached the conclusion that, unless there are major changes in policies, the bottom end of the bracket of likely results in 1974 might well be up to £40m. worse than forecast, before taking any account of interest. On the other hand, the top end of the bracket seems unlikely to be more than £10m. better. Both these figures take no account of the various subventions from the Government which we recommend should be available. It should be noted that the range of £50m. suggested above is equivalent to about 5 per-cent of the combined revenue and expenses of the undertaking, and this is looking seven years ahead; thus, while we think these figures are sensible for planning purposes it is not impossible that the results might fall right outside this range.

The range quoted in the previous paragraph is given simply in order to provide a guide to the Minister and the Chairman when considering the question of the extent to which capital reconstruction will be required. In our collective judgement, the most likely outcome on present trends and policies may well be somewhat more unfavourable than the Board predict in the figures quoted in Appendix E2. But we do not wish to give the impression that nothing better than this is possible, and certainly it would be entirely wrong for the Board to feel that it would be satisfactory if they do no better than achieve the mean point of the figures quoted above. They have said that they hope to do better, and should set themselves the target of doing so, provided the trend of the economy and other matters outside their control work out as favourably as has been assumed for the purpose of these forecasts.

**EFFECT OF GRANTS**

Before considering the degree of recapitalisation that may be desirable, we have had to consider the nature and scale of the various types of grant that may be available to the Board :
Social Grants for Unremunerative Passenger Services

2.14 We explain in Appendix D to this Report the progress that has been made since our Interim Report, and the stage that we have reached. It will not be possible to put forward anything like an accurate total for these grants until at least a considerable number of services have been looked at in great detail. In the meantime, we asked Cooper Brothers, in association with the Board's officers, to make the best estimate they could of the likely order of magnitude for the total of these grants. In view of the time available for the preparation of the estimate it was necessary to use information on the earnings and direct costs of services which was already available. Much of this was somewhat out of date and had to be adjusted to take account of changes in price levels and fairly broad assumptions had to be made about track and signalling costs. On this basis, the Consultants said that the total deficit on all loss-making passenger services was £83m. p.a.

But to make the figure compatible with those quoted in Appendix E2 it is necessary to exclude

- Services on "grey" or "thin black" lines which it was assumed would be withdrawn by 1969 - £14m.
- Interest related to the remaining services - £17m. £31m.

On this basis the adjusted deficit is £52m. p.a.

2.15 A broad analysis is:-

- London Suburban - £10m.
- Other Suburban - £8m.
- Stopping - £21m.
- Principal and Secondary - £13m.

Total £52m. p.a.
2.16 It is likely that certain of the services which are included in the above figures would not in fact be submitted for grant by the Board, either because they considered that the services could be made viable by management action or because they wished to retain them for sound commercial reasons. It is also clear that if there were to be a somewhat greater degree of aggregation of services, the total deficit quoted would be smaller, because the surplus on other services would counterbalance the loss on the services included above. On the other hand it may be that on investigation it will prove right further to sub-divide some of the services with a consequent increase in the losses ranking for grant. The net effect of these qualifications is likely to be a reduction in claims, particularly for London Suburban and principal and secondary services: in relation to the latter the case for a grant on social grounds might often not be strong. After taking all these points into account, the Board estimate that the total grants (excluding interest) which they might actually expect to receive in 1969 and 1974 will not exceed the figures of £40m. and £35m. These may prove to be over-estimates if efficiency can be improved, or the services pruned, more than now seems likely; or as a result of applications for grant being rejected, in which case the services in question would presumably be withdrawn. In these circumstances the Board's basic figures would be similarly affected and the net result would be the same.

The Board's Continuing Obligations Deriving from the Past

2.17 We have described in some detail in Appendix C the work that has been done on these continuing obligations by the various Joint Teams whom we set up at the time of our appointment. We are agreed that there is no need for specific financial treatment in respect of Museums and Historical Records, where we hope that the Board's responsibilities can largely be handed over to the Department of Education and Science. As regards the Savings Banks
there is no short-term problem, but the interest on these deposits, and also on the Superannuation funds, has to be taken into account when we come to assess the total amount of interest burden which it would be appropriate for the Board to carry for the future.

2.18 The specific obligations which should be mentioned at this stage are:

2.18.1 Road Bridges, a sum of about £1½m. per annum.
2.18.2 Level Crossings, a sum of about £1m. per annum.
2.18.3 The British Transport Police (in respect of their services to the public as a whole) say £¼m. per annum and
2.18.4 The Board's Superannuation obligations resulting from the decisions of their predecessors — about £5m. per annum.

2.19 We considered whether it would be appropriate to meet these obligations by some kind of specific or general grant. There would, however, be considerable practical difficulties involved in arranging for such grants, and agreeing the amounts. The general nature of the grants would moreover be quite different from the type of specific grant which we are recommending in respect of unremunerative passenger services. We have therefore come to the conclusion that the sensible way in which to deal with these relatively small sums is to take account of them in the recapitalisation which we discuss later in this Section.

Track Rationalisation

2.20 Paragraph (d) of our terms of reference required us to assess "whether and if so to what extent the cost of railway infrastructure includes an element of "standby capacity"". We have
in fact made intensive enquiries into the ramifications of this subject, and a brief summary of our work is included in Appendix B. We have concluded that, strictly speaking, "standby capacity" other than that required by the railway for commercial reasons or for operational convenience, does not exist as a permanent feature, but there is a considerable measure of surplus capacity, actual or potential, in the system, the cost of which is bound to swell the Board's deficit until it can be eliminated. This surplus is not mainly related to the route mileage of the system or to the decision to retain and develop a basic network of 11,000 route miles. It is almost wholly to be found in the shape of excess track mileage (e.g. four tracks, where two would suffice to carry the traffic). This is one of the inherited liabilities of the railway which, in the light of the policies which we recommend for the future, should be eliminated as quickly as possible. The amount of the surplus is not static and additional surplus should be continuously created with changes in equipment and operational methods. For the purpose of settling this grant, however, it is proposed to confine consideration to surplus which exists now or can be created before 1974. We hope that it will be possible for the Board to identify and cost all this surplus capacity within the next 18 months. But they have explained that, even so, there are good technical reasons why much of this surplus cannot be eliminated as soon as it is identified. In many cases it will involve alterations to alternative routes, the rationalisation of services, the installation of improved signalling and possibly even the removal of old stations or the building of new ones. Where these steps are necessary they may well take a number of years. But, until they can be carried out, the Board will have to carry the cost of this surplus.
We are therefore satisfied that there is a case, exceptionally, for the Ministry paying a specific grant whose purpose should be to assist, and hasten, the elimination of this surplus and the rationalisation of the system. Whether this grant should also cover any part of the capital cost of removing the surplus has still to be considered.

2.21 We have already explained why the other historic liabilities under which the Board suffer can most conveniently be dealt with by means of a capital reconstruction. The fact that this infrastructure surplus is a liability which can be substantially reduced over a period of a few years means that, from the finance angle, the appropriate treatment is a specific but tapering subsidy, rather than capital reconstruction. We are therefore recommending that the Board should be paid, in the first year, a grant which should meet the assessed cost of this surplus, but that the grant should thereafter be reduced at an agreed rate, so that it reaches zero at the earliest period by which the Board could be expected to have removed at least the greater part of this surplus. We suggest that this period should be fixed at 5 years.

2.22 We think we should emphasise that in recommending such a grant, we regard it essentially as a tool for securing the most rapid possible rationalisation of the system. Although the Board gets no benefit from the retention of unecessary capacity, we think they would be helped by an incentive to get rid of it rapidly. If a grant is agreed on the lines we propose, it should represent a challenge to the Board to deal with the
situation as drastically and as rapidly as circumstances and the available resources permit.

2.23 As set out in Appendix B, the Board will not be able to put forward a precise figure for the cost of this surplus until towards the end of 1968. In the meantime, they have produced an order of magnitude figure which, for the year 1969 is a bracket from £11m. to £17m. They believe, and we accept, that this may represent something of an underestimate, and we suggest that for the current overall financial exercise we should assume that the grant in 1969 will be at a rate of £15m. per annum. If this is accepted, then it is fair to assume that by 1974 rationalisation will have reduced their costs by something near to this amount (even although the grant will no longer be payable), and we have therefore assumed a £15m. improvement in their finance for both years.

Subventions to Operators of Bus Services, provided as a Condition of the Withdrawal of Rail Services

2.24 We said in our Interim Report (paragraph 3.23) that we would have to consider how to deal with these subventions which, in 1966, actually cost the Board £500,000 - less than the total losses because some operators, and particularly the Transport Holding Company Groups, claim less than they might. This figure will certainly increase, at least in the short term. We are still unable to make specific recommendations as to how this financial responsibility can best be removed from the Board, as any new arrangements should fit in with the general structure of the policies for the bus industry generally which are currently
being developed within the Ministry. But we are agreed that, as part of the overall financial reconstruction which we are recommending, the Board should be released from these burdens, and we assume in the following paragraphs that a way will be found to achieve this.

THE BOARD'S FUTURE FINANCIAL STRUCTURE

2.25 The Board's current interest-bearing debt, as set out in their 1966 Annual Report and Accounts, is as follows:

<table>
<thead>
<tr>
<th>Interest-Bearing Capital Liabilities</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>to Minister of Transport</td>
<td>912m</td>
</tr>
<tr>
<td>Savings Bank Deposits</td>
<td>36m</td>
</tr>
<tr>
<td>Superannuation, etc., Deposits and Provisions</td>
<td>275m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,223m</strong></td>
</tr>
</tbody>
</table>

In addition, the suspended debt (on which no interest is payable) totalled **£705m**.

but the capital deficit arising from adjustment of book values of vested net assets could be offset against this **£315m**.

leaving a total of **£390m**.

2.26 The following table sets out the likely figures for the Board's financial position in 1969 and 1974 including the effect of the proposed grants.
<table>
<thead>
<tr>
<th>Description</th>
<th>1966</th>
<th>1969</th>
<th>1974</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. /Deficit/ Surplus before calculation of grants and interest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per Appendix E2</td>
<td>72</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Adjustment in accordance with paragraph 2.11 - say</td>
<td></td>
<td></td>
<td>0-25/</td>
</tr>
<tr>
<td>Grants, excluding interest, in respect of unremunerative passenger services</td>
<td></td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Track Rationalisation Grants and Track reductions</td>
<td></td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>2. /Deficit/ Surplus before interest payments (or interest receipts in respect of grants)</td>
<td>72</td>
<td>25-0</td>
<td>60</td>
</tr>
<tr>
<td>3. Interest assuming no change in present basis of capital obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td>64</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td>Less : Grant receipts</td>
<td></td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Net</td>
<td>64</td>
<td>55</td>
<td>65</td>
</tr>
<tr>
<td>4. /Deficit/ Surplus after Grants and interest (2 less 3)</td>
<td>136</td>
<td>30/-55/</td>
<td>15/-5</td>
</tr>
</tbody>
</table>

* No specific estimate for 1969 is made in this section of the Report, but the above figures assume a narrower bracket for 1969 than for 1974. At the upper end of the bracket, it is assumed that the deterioration in 1967 will be offset by the increase in charges recently sought by the Board.
2.27 These figures demonstrate that, if the Government policy set out in the White Paper is to be carried into effect, a considerable write-off of existing capital debt to the Minister is inevitable. The White Paper said that after the Government had assumed responsibility for losses on services retained for social reasons, the Board should then be given realistic financial objectives to assist them to move as soon as possible to a fully economic basis of operation. Even on the most optimistic assumptions, the Board cannot be expected to do this on the basis of their present debit.

2.28 We are agreed that recapitalisation must be on a realistic basis, and must not look too far ahead to a period where the uncertainties become great. We recommend therefore that the capital reconstruction should be carried out on a basis which does not foresee quite such a rate of recovery as is suggested by the Board's revenue forecasts, and that the aim should be to put the Board in a position of break even, including interest payments, in the early 1970s.

2.29 We regard it as obvious that the Board must be put in a position where they can continue to honour their obligations in respect of the interest-bearing deposits and provisions for the Savings Banks and Superannuation and Retirement Funds, etc. Any recapitalisation which is considered can relate only to the Board's debt to the Minister.

2.30 Subject to the figures which the Board produce later in the year not being drastically different, we see no reason why it should not be possible to put the Board in a break even position by about 1971. Whilst this would certainly involve a drastic writing down of their capital debt we do not believe that this need go beyond the bounds of acceptability. Transitional deficit grant powers may well be needed to cover the period from 1969 to 1971, but it is an important
part of the scheme which we recommend that no future deficit grant powers need be envisaged for the period after 1971. In other words, we think it essential that the Board should be put in a break even position at an early date, and that they should then be seen to be in a similar position to other nationalised industries, with no need for the Minister to have powers to make grants to meet any deficit that they might incur in an individual year.

2.31 It is considered that the capital reconstruction envisaged should be matched by an equivalent writing down of asset values. Such a writing down would have the consequence of reducing the amount of depreciation which the Board would have to provide each year, and would thus increase the margin of revenue it had available for servicing capital debt. In working out the detailed figures, however, consideration should be given to shortening the depreciation lives of certain assets, for instance, because of the risk of technical and commercial obsolescence.

2.32 If in any year the Board did in fact fail to earn enough to meet all their liabilities, including interest, the main effect would be that they would not have earned their depreciation in full. Depreciation (including amortisation) is a provision in respect of the consumption of fixed assets which involves no cash expenditure year by year. The expenditure arises only when the assets have to be replaced. Nonetheless, under the present system, Exchequer grant is issued in respect of the depreciation provision, and the Board are provided with cash in excess of that needed to meet operating losses; this cash is available towards their current capital requirements. Under our proposed scheme, the Board would no longer have the cash from depreciation unless they actually earned it. They would have to borrow the sum required to make up any deficiency. But given the estimates which the Board and the Minister make of the position up to 1974, and on the basis of the degree of
recapitalisation which we have in mind, this situation should not present an intolerable burden. We do not think that even over the following few years, it need become unmanageable, though we recognise that there will be a need for a continuing financial improvement after 1974 if investment is to be sustained at its present level.

2.33 There are two further comments which we should make:

2.33.1 We are recommending a very drastic approach to the problem. A possible consequence might be that more capital is written off than proves to have been necessary. If this should prove to be so, the Board might well earn a considerable surplus. But Section 18 of the 1962 Act already provides for the establishment of a general reserve as a charge on revenue, under the Minister's control. In addition the Minister will, we suggest, need a power, on the analogy of that contained in Section 3(9) of the Air Corporations Act, 1966, providing for the capital reconstruction of BOAC, to direct, after consultation with the Board, that any amount surplus to the Board's requirements should be paid into the Exchequer.

2.33.2 We believe that to put the Board's financial structure on a break-even basis, and to remove the "safety-net" of a deficit grant power, should re-inforce the Board's internal financial discipline.

2.34 We do not think that it would be right for us to recommend precisely how much the write-off should be. We have, as yet, only fairly rough figures available, and the precise figures for recapitalisation will need to be determined over the next few months in the light of the position that will emerge as the Board's own
financial forecasts are further refined and, it is hoped, the economic outlook becomes clearer. Certainly there will be a need for the figures to be discussed in detail between the Board, the Ministry and the Treasury. But, clearly, the Minister and the Chairman would expect us to recommend the principles which any recapitalisation should follow.

2.35 As an indication of orders of magnitude, however, we might make the following points:

2.35.1 If the remaining suspended debt were written off, and asset values written down accordingly, the depreciation allowances to be provided in the Board's accounts could be reduced by some £15m. - £20m. There would be no immediate effect on the interest burden.

2.35.2 If, say, £100m. of the "live" capital debt to the Minister were written off, and asset values were written down correspondingly, the interest burden would be reduced by £5m. per annum and the depreciation provisions could be reduced by £5m. per annum.

2.36 Recapitalisation on the scale required to meet the recommendations summarised in paragraph 2.42 is recognised as a matter of real gravity, and represents the acceptance (which is essential) of the fact that British Railways' earnings simply are not sufficient to support the total assets now employed in the business even when allowance is made for specific social, etc., grants. It is thus a step in line with the aims set out in the White Paper of providing British Railways with realistic burdens and assets and will enable their efficiency to be judged by normal financial criteria.
Nevertheless it is also recognised that recapitalisation is merely an accounting device to align the book value of British Railways' existing assets with British Railways' earnings and of itself does nothing to render British Railways more commercially viable in the future when assets will be replaced at the full cost of such assets at that time. The recapitalisation is however recommended in the expectation that it will help British Railways' management to solve the basic problem of aligning the actual value of British Railways' future assets with future earnings, that is, ensure that the quantity and type of assets that are actually replaced in the future are only such as can be supported by future earnings.

Moreover it is not envisaged that the recapitalisation will involve a relaxation of financial discipline; on the contrary it should enable it to be exercised more clearly and thus impose on British Railways a very considerable responsibility. In the opinion of British Railways this responsibility is made all the more serious because of the fact that their capitalisation is wholly on the basis of fixed interest.

The whole of this section is based on our assumption that, apart from the unremunerative services to be grant aided on social grounds, the Railways Board will have freedom to manage their activities on a commercial basis.

One member of the Steering Group feels strongly that the present method of financing the nationalised industries by fixed interest capital is wrong, at least as regards the railways, and that the introduction of an "equity" would be particularly suitable in the circumstances of that industry. Since, however, we have been informed that the Government would be most unlikely to accept this, we have not pursued the matter further.
Treasury Representatives' Position

2.41 The Treasury has been represented on the Joint Steering Group and has therefore taken part in formulating the figures and arguments incorporated in the report. These have of course been prepared in the context of railway operations and prospects. It will therefore be clear that any wider view covering other aspects, which the Chancellor of the Exchequer might subsequently wish to take is in no way prejudiced by such participation.

RECOMMENDATIONS

2.42 In the light of all these considerations we make the following recommendations:­

2.42.1 the capital debt of the Board should be written down to a level at which it can reasonably be expected that the interest payments can be found out of prospective revenue early in the 1970s;

2.42.2 the "break even" thus envisaged should be based on neither too optimistic nor too pessimistic a forecast of the Board's revenues in the early 1970s;

2.42.3 the capital write-off involved would in part be justified by taking account of the continuing obligations of the Board in respect of railway road bridges, level crossings, superannuation, and the Police, as described in paragraph 2.18;

2.42.4 the capital reconstruction envisaged should be matched by an equivalent writing down of asset values.

2.42.5 appropriate arrangements should be made for dealing with any surplus on revenue account in case, as a result of following the previous recommendations for cutting down the capital debt, the amount of write-off necessary has been overestimated;
2.42.6 there should no longer be provision for deficit grants from the Minister (except perhaps for the transitional period 1969 to 1971): and in particular, no deficit grant should be payable in respect of depreciation provision.
BOARD STRUCTURE AND ORGANISATION

Part I

PRESENT POSITION

3.1 Section 1(3) of the Transport Act 1962 provides that the Board shall consist of a Chairman, one or two Vice Chairmen, and not more than sixteen nor less than ten other Members. It also provides that Board Members are to be appointed by the Minister from among persons who have had wide experience of, and who have shown capacity in, transport, industrial, commercial, or financial matters, administration, applied science, or the organisation of workers. At present, there are a Chairman, two Vice Chairmen, seven full-time Members and four part-time Members. All the full-time Members, other than the Chairman and the newly appointed Vice Chairman, have functional responsibilities.

3.2 Section 2 of, and the First Schedule to, the 1962 Act provide for the setting up of 6 Regional Railway Boards to share between them responsibility for all parts of the national railway system. Subsection 2(2) gives the Minister power, by order, to vary the number of Boards. Subsection 2(4) provides that the Regional Railway Boards shall exercise such functions of the Railways Board as are delegated to them by the Board, and the Board have to determine these functions on lines settled from time to time with the approval of the Minister. At the present time, as a result of an order made by the Minister in 1966, there are only 5 Regional Railway Boards.

Part II

METHOD OF WORK BY THE GROUP

3.3 We have had the benefit of a submission by the Railways Board in which the Board's own proposals for the future structure and organisation of the railways are set out. The Board summarise their proposals as follows:-
3.3.1 In the forthcoming Bill, provision should be made for a Board consisting of a Chairman, not more than three Vice Chairmen, and not less than ten and not more than fourteen other members. Initially they would envisage two Vice Chairmen, one inward looking, maintaining an efficiency audit upon the working of the railway in both its operating and its technical aspects; the other, outward looking, dealing with commercial policy at the highest level, overseeing of finance and investment budgets, representation of the Board on important national bodies, and the general concept of business planning. There would be at least seven full-time members in addition to the Chairman and Vice Chairmen, and all of these would have functional responsibilities.

3.3.2 The statutory provisions for Regional Boards set out above should be abolished.

3.3.3 The Board should be required within 18 months of the passing of the Act to prepare and submit to the Minister a "general scheme of organisation" for the undertaking.

3.3.4 The Minister would have power to approve the scheme, and any subsequent modifications of the scheme which might be submitted by the Board.

3.4 We were fortunate in obtaining the services of Mr. Pears, who is the Senior Partner in Cooper Brothers and Company, who (in order to avoid difficult and time consuming discussions of our personal views and preferences in open session) undertook to interview separately each of the members of the Group and collated these views in a report to the Group. Mr. Pears also saw the Chairman of the Board. In addition to the collation of the
Group's individual views, Mr. Pears provided a separate paper giving an indication of his own views which he had formed in the course of this assignment.

3.5 The Group received a separate report from Cooper Brothers which included recommendations which were based on the experience of the Cooper Brothers' Team extending over the whole of the railways organisation since the beginning of their appointment as Consultants to the Group. Cooper Brothers had not, however, discussed their recommendations with the British Railways Board in advance, and we have not subsequently been able to have a discussion with them. We have, therefore, only taken account of their recommendations in so far as this seemed appropriate in the light of other evidence.

3.6 The Group have considered carefully all the views which have been put forward to them in these several reports and our conclusions are set out in the following paragraphs.

Part III
THE PROPOSED FUTURE STRUCTURE AND ORGANISATION

Factors Affecting Overall Structure and Organisation

3.7 The British Railways Board control a complex of many businesses. As in any business it is essential, if profitability is to be ensured, to match production and sales, but the transport industry has the characteristic that transport cannot be stored. It is also vital to plan railway services in such a way as to maximise utilisation of all the assets, including manpower. In many cases, this involves decisions about the allocation of resources, when the priorities between different types of service have to be assessed. Furthermore, all such decisions depend, in the long run, on adequate co-ordinated long range planning. It follows therefore that general management is required at the centre to ensure that all forward planning activities are properly co-ordinated and carried out within the framework of agreed objectives and overall strategies.
3.8 On the other hand there is a need for dispersed management. Both the scale of railway operations, and the geographical dispersion of the system require local managements with authority to make decisions on day to day matters. This local management must operate within general policy lines laid down by general management at the centre.

3.9 The future management structure requirements of the railways will clearly be influenced by a number of factors which have already become evident but which are likely to become more marked in the future. The most important of these are:

   3.9.1 the continuing rationalisation of the system by the elimination of facilities (track, marshalling yards, terminals) which are no longer required;
   3.9.2 the more intensive use of the developed system;
   3.9.3 the continuing reduction in the labour force;
   3.9.4 the trend towards a more ordered pattern of operation both for passenger and freight services.

These will make it even more vital to develop sophisticated planning and control techniques, including the use of computers, both for day to day control and for model building.

3.10 All these considerations suggest an increasing trend towards the centralisation of the planning of railway operations with at least the main trunk services, passenger and freight, being directed from the centre. This will also be required if the Board are to develop their relationships with the new National and Regional Transport Organisations which are to be set up. Strong central financial control will also be required if the Board are to achieve the financial targets which we have recommended in Section 2 of this Report. These financial objectives will make it even more important for the Board to ensure that there are comprehensive plans, covering each main section of their business, for the achievement of these objectives.
3.11 At present, the Board's Headquarters is organised into functional departments headed by Chief Officers who in turn report to Board members. As indicated above, all the full-time Board members, except for the Chairman, and one Vice Chairman have functional responsibilities. It is the consensus of opinion amongst us that full-time members should be without the direct executive line responsibility that they have under the present arrangements.

3.12 Relations between the Board and the Regions may have been complicated by the Regions having a statutory status under the 1962 Act, and by the philosophy of that Act being that the Regions were to have the main responsibility for the "management of the railways". We doubt whether a split statutory responsibility for the management of the railways, and the present independent statutory position of the General Managers, can be conducive to ideal relations between the Board and the Regions.

Scope of our Recommendations

3.13 Railway problems are unique, both because of the size and geographical spread of the industry and the nature of its operations and commercial activities. Many of us are without direct experience of the industry and can only base our opinions on acquaintanceship with its problems and the limited study that has been possible over the last year. We are also conscious that the setting up of the National Freight Organisation, and a number of Passenger Transport Authorities, will obviously influence the shape of management structure appropriate for the Railways Board. Furthermore, we have pointed out that there are a number of developments which are leading to a greater element of central direction. We could not, therefore, claim to be in a position to make specific recommendations about all the details that will be involved in the new organisation. But we feel confident in putting forward some general principles which should be observed in any new organisational structure.
Timescale

3.14 We think it best to frame our recommendations in the light of the ultimate shape and structure for the industry which we think will be appropriate in a few years time when the "new railway" is in existence. We are, in the following paragraphs, recommending a different type of Board designed to meet the situation then likely to exist, and this will affect the overall structure and geographical organisation of the railways. It may well be that none of the changes which we propose can be implemented quickly. We accordingly emphasise that there will be a need for a transitional period during which these changes can be effected. We accept that the determination of the precise provisional arrangements which will operate during this transitional period must be for the Ministry and the Board. These arrangements will have to take account of the inevitable practical and human problems involved. We do not think that it would be appropriate for us, in this Report, to attempt to deal with these transitional problems. We recognise that they will be difficult, but we are concentrating on what we believe should be the ultimate objectives.

Proposals for the New Board

3.15 In our view, the Board should as far as possible be free to concentrate on policy questions and in particular on the problems of future planning, and the individual members should not be tied down by day to day responsibilities for specific functions. We are therefore generally agreed that it would be sensible that ultimately the Board should consist largely of non-functional members and should be smaller than at present.

Top Management and Responsibility for Co-ordination

The Chairman

3.16 We accept the view put forward by the Board that the Chairman must be given some relief from his present heavy load of day-to-day responsibility. He inevitably has many commitments
of a more general nature, and it is therefore desirable that he should be free from day-to-day matters as much as possible in order to be able to concentrate on the major issues of policy and to project the Board's image both within the organisation and to the public at large.

3.17 Clearly it is the Board itself which will carry the ultimate responsibility for policy and direction of the railways and for the overall performance of the undertaking. But the Chairman has a particular responsibility for these matters, not least in his relations with the Minister and with Parliament. All the Members of the Board, including those with executive responsibilities to whom we refer in paragraphs 3.19 to 3.29 inclusive and 3.31 below, will regard themselves as responsible to the Board as a whole.

3.18 We consider that the Chairman must have time to devote to top level management planning problems. No doubt, a Chief Officer would be responsible for the major personnel planning issues, and we think that, exceptionally, such a Chief Officer should report direct to the Chairman on questions of management development.

Need for a "Chief General Manager" for the Railways as a Whole

3.19 If the Chairman is to be relieved of his day-to-day responsibilities, and the Board is to be reconstituted as we suggest above, the great majority of us are of the view that it will ultimately be desirable to have a single person to control and co-ordinate all aspects of the day-to-day running of the railway. Whilst we do not wish to assign a specific title to such a person, we envisage him as a kind of Chief General Manager, responsible for the railway as a whole, and for convenience we refer to such a person below under this title.

3.20 We envisage that the Chief General Manager would provide leadership and direction to the Regions and/or Divisions, and would be the focus of the Board's headquarter functional organisation
insular as it is concerned with current policy making and the efficiency of the business. He would be in a position to provide the necessary degrees of co-ordination between commercial, operating and technical requirements in respect both of passenger and freight traffic.

3.21 The burden on one man would necessarily be extremely heavy. But the great majority of us are agreed that, under whatever title, there must be one man whose responsibility it is to take the ultimate decisions on day-to-day matters - or see that they are taken, and are duly implemented. The emphasis should be on his responsibility for the effectiveness of the organisation, rather than on his taking personal decisions. Many of us do not think that the Board's original proposal that this duty could be split between two Vice Chairmen would solve the problem, as it would tend to mean that, in practice, difficulties would have to be resolved by the Chairman. We therefore recommend that there should be a single Chief General Manager, recognising that he will need a considerable staff in support to whom he will delegate on a substantial scale.

3.22 The Chief General Manager must have a position of sufficient status and authority within the Board, and publicly, to enable him to do this job. Clearly he must be a member of the Board, and it might well be the case that it would normally be appropriate for him to be appointed as a Deputy or Vice Chairman. But we recognise that circumstances and personalities change from time to time, and we do not think that the legislative provisions for the Board need define his status on the Board.

Planning and Finance

3.23 These are two areas which are so important, and which will have so pervasive an effect on the work of the Railways Board as a whole, that we recommend that it will be essential to appoint members to the Board with specific responsibilities for these two aspects of the Board's work.
3.24 We recommend that one member should be responsible for the co-ordination of long range planning in the railways. We suggest that he must have specific responsibility for

3.24.1 ensuring that there are coherent, comprehensive and compatible objectives, strategies and long range plans for each main sector of the business, directed towards the achievement of the overall financial objectives of the undertaking;

3.24.2 establishing a systematic organisational and procedural framework in which all planning activities should be carried out and the results monitored; and

3.24.3 co-ordinating all the long range planning activities in the railways wherever carried out.

3.25 It would be necessary for this member to be supported by a corporate planning department consisting of people with varying knowledge and experience.

3.26 He could also be directly responsible for management organisation planning and probably for an economic and commercial studies department which would include market research. Possibly he could also include technical research and development within his sphere of interest.

3.27 We also recommend that there should be a member appointed with specific responsibility for finance. He would have a special responsibility for

3.27.1 the overall financial policy of the undertaking;

3.27.2 the operation of the financial control system; and

3.27.3 the development of management information and control systems.

We should however comment that we are due to receive a report from Cooper Brothers on their review of budgetary and financial control and management information by the end of July, and we may wish to review the responsibility for the development of these systems in the light of that report.
3.28 In view of the great importance for finance of purchasing and supplies in the special circumstances of the railways, we suggest that the finance member might also be responsible for these activities and it would also be appropriate to consider, in the light of circumstances at the time, whether he might also have an overall responsibility for estates.

3.29 It will be essential that both the planning and finance members should have positions of recognised status and responsibility on the Board, to which, of course, as a whole, they would both be responsible. We suggest that the legislative provision for the Board should be such that it would be open to the Minister, in consultation with the Chairman, to appoint both of these as Vice Chairmen of the Board if, in particular cases, this seemed appropriate. This might most conveniently be achieved, by analogy with the Iron and Steel Act, 1967, by giving the Minister power to appoint one or more members of the Board as Deputy or Vice-Chairman.

Full-Time Members

3.30 In addition there must clearly be a number of full-time Board members. With the sole exception of a member who, we recommend, should have functional responsibilities for personnel and labour relations (paragraph 3.31) we are agreed that these Board members should not have functional duties. They should have spheres of interest, and might often be required to co-ordinate activities of various kinds. By this, we mean that individual members might be given responsibility for such varying matters as the overall development of the passenger business (necessarily crossing many functional boundaries), relations with the various Passenger Transport Authorities, the general oversight of one or more Regions, or non-executive Chairmanship of (or general responsibility for) one or more of the subsidiary units to which we refer in paragraph 3.42 below. The functional head of each of the various
departments should be the Chief Officer, reporting to the Board as a whole, (most of them through the Chief General Manager,) and not, as now, to a functional member of the Board.

Labour Relations

3.31 In view of the undoubted importance of personnel and labour relations, we think that there should be a Board member who should have specific responsibility for the longer term development of labour relations in the industry. The Chief General Manager would, of course, be regarded as the employer of labour on the railways and he should have the support of a Chief Officer to deal with personnel and labour relations matters on a day to day basis. But there will be a number of important issues which have to be taken to Board level, and it is important the the Chief General Manager should not have to devote a disproportionate amount of time to them. Furthermore, labour relations will be one of the major responsibilities of the Board as a whole, and they may well find it important that there should be another one of their number, in addition to the Chief General Manager, with a special interest in this field. The labour relations member should, however, have a wider remit than the Chief Officer, and should not be regarded merely as the functional head of his department.

3.32 We do not think that it is possible to lay down any precise number of Board members. This will depend on the changing circumstances of the railway industry, and the different types of personality on the Board. It also depends upon the extent to which, in practice, the Chief General Manager finds that he needs assistance, at Board level, in the discharge of his duties for general management over the system as a whole. We suggest that the new legislation should provide for a minimum of three, and a maximum of six, such full-time Board members, including the one
dealing with labour relations, but in addition to the Chief General Manager and the members with specific responsibilities for planning and finance.

**Level of Remuneration and other Conditions of Service (including Pensions) for Board Members and Chief Officers**

3.33 We are seriously concerned about the current level of remuneration and other conditions of service for members of the Board, and for Chief Officers. This is so vital a matter that we have concluded that we should make detailed enquiries, and we intend to make recommendations in a subsequent report. In the meantime, this matter is of such importance that it would be wrong for us to make general recommendations about the structure of the new Board without making it plain that, in our view, substantial increases will be required in the level of remuneration and in the other conditions of service (including pensions) both for Board Members and for Chief Officers.

**Headquarters Staff**

3.34 It will be obvious from the recommendations made above that most Board members should not have specific functional responsibilities, that a vital role will be played by the Chief Officers at Headquarters, who would carry full responsibility as heads of departments. Except for those Chief Officers concerned with the planning and finance functions which we suggest should be the responsibility of the two members described in paragraphs 3.23 to 3.29 above, the Chief Officers would report to the Chief General Manager. This would not, however, prevent the development of close relations with any of the full-time members of the Board who might have accepted a special interest in their sphere of responsibility.

**Part-Time Members**

3.35 We recommend that there should be at least three part-time members, who should be appointed for their ability and experience rather than on any representational basis. Specifically
the Group do not favour the proposal put forward by the Board that there should be representation on the Board of the National Coal Board, the National Steel Corporation and the National Freight Organisation. We are satisfied that the necessary co-ordination with those bodies can be achieved in other ways.

3.36 We further recommend that the period of service for part-time members should be restricted. We do not wish to recommend any exact time limit, but suggest that when the Minister and the Chairman consider individual appointments they should bear in mind that, on the one hand, part-time members should serve for long enough to ensure that the Board get full value from their experience, and the contribution they can make whilst, on the other hand, there should be sufficient change in their ranks in order to provide for the necessary infusion of new ideas at regular intervals. In this connection we think there will be considerable advantage in providing for greater flexibility in the remuneration of part-time members than is now customary. We have in mind that there may be occasions when an eminent outsider, whose services would be of value to the railways, might be prepared to serve on say a half-time basis with a consequential and desirable enhancement of his responsibility compared with that of a normal part-time member.

A General Scheme of Organisation and the Place of the Regions

3.37 We have already set out in paragraphs 3.7 to 3.12 the general considerations, present and future, which in our view will affect the relations between General Management at the centre, and Regional Management. We have also referred in para. 3.13 to the effect on the shape of the Board's management structure of the setting up of the National Freight Organisation and Passenger Transport Authorities and to the developments which are leading to a greater element of central direction. All these considerations are consistent with our recommendations for a small non-functional Board, and the appointment of a Chief General Manager.
3.38 We are agreed that the existing statutory Regional Boards no longer fulfil any essential function, and may indeed militate against the effectiveness of Headquarter control. Accordingly we recommend that the provision in Section 2 of the Transport Act, 1962, relating to the establishment of Regional Boards, should be repealed.

3.39 We are impressed by the desirability of affording to the Chairman of the Board and the Minister the greatest possible degree of flexibility in developing a Board structure and organisation that meets the needs of a situation that is, and is likely to continue to be, fluid. Accordingly we have noted with interest the precedent created by the Iron and Steel Act, 1967, which provides for the submission to the responsible Minister for his approval of a general scheme of organisation for the industry.

3.40 Our studies so far have led us to believe that it will be necessary in the future for the centre to assume a greater degree of control over many of the Board's activities, and that the role of Regional General Managers will certainly change. There must be a clear delegation of management responsibility within the limits of specified policy and planning objectives, and it will be desirable that the chain of command should be reduced in length wherever practicable. But these are detailed matters on which we do not feel qualified to put forward specific views, particularly as their development will necessarily be a lengthy process. We therefore recommend that a provision corresponding to that in the Iron and Steel Act, 1967, should be included in the Transport Bill to provide that the Railways Board should submit a general scheme of organisation to the Minister for her approval within a specified period of the date of coming into operation of the Act. We suggest that the Board should be required to submit the first of such schemes within an initial period of 12 months. We think that it
would be desirable for the Minister herself to have a continuing power to initiate a change, if she thought one to be necessary, in the absence of proposals by the Board.

3.41 In their original submission the Board suggested that top policy co-ordination would be achieved through an Executive Policy Group consisting of the Chairman and the two Vice-Chairmen whom they proposed. If, in the event, it is decided to set up such a Group, which we suggest should be particularly concerned with planning, the details would no doubt emerge from the general scheme of organisation which the Board will be required to put forward to the Minister. We suggest that it would in any case be appropriate that, whatever their ranks on the Board, such a Group should include, in addition to the Chairman, the Chief General Manager whom we recommended in paragraphs 3.19 to 3.22, and the planning and finance members whose functions we have described in paragraphs 3.23 to 3.29.

The Board’s Ancillary Activities

3.42 It will clearly be necessary to consider whether activities such as workshops, hotels and shipping should be hived off into separate management units or companies. We think that it would be inappropriate for us to seek to reach firm conclusions on this issue in the absence of a clear appreciation of all the relevant factors.

Supporting Documentation

3.43 We have attempted to keep this part of our report as short as possible consistent with our obligation to set out our recommendations and the reasons for them clearly. The original submission by the British Railways Board, the Report by Mr. Pears of Cooper Brothers, and the separate letter giving an expression of his own views are all available for reference, if necessary, both within the Ministry and the Board.
LEGISLATION

3.44 The legislative provisions consequent upon our recommendation are relatively simple and fall under three heads as follows:

3.44.1 An amendment of Section 1 of the Transport Act 1962 to provide for the amended size and composition of the new Board, including a provision on the lines of sub-paragraph 1(8) of Part I of the Fourth Schedule to the Iron and Steel Act, 1967.

3.44.2 The repeal of Section 2 of the Transport Act, 1962 which provides for the setting up of Regional Boards.

3.44.3 A new provision will be necessary on the lines of that in Section 4 of the Iron and Steel Act, 1967, requiring the Board to put forward a general scheme of organisation for the Minister's approval within a specified period.
FINANCE

4.1 Our summary of the likely financial position of the Board in 1969, and 1974, before allowing for any capital reconstruction, is set out in paragraph 2.26.

This table starts with the Board’s financial forecasts, which are set out in Appendix E2 and which show a break-even position on operating account in 1974. These figures take account of the establishment of the National Freight Organisation, but not of any grants for social passenger services or track rationalisation. After studying these figures we have concluded that, unless there are major changes in policies, the likely results in 1974 might well be up to £40m. worse than the Board have forecast; on the other hand, at best, they would be unlikely to be more than £10m. better.

4.2 The best estimate, on the available evidence, is that the "social" grants for unremunerative passenger services, which we recommended in our Interim Report, will not exceed £40m. per annum in 1969, and £35m. per annum in 1974, excluding interest in both cases.
4.3 The grant for track rationalisation described in paragraph 4.27 below, is likely to be of the order of £15m. per annum in 1969; this grant will have reduced to zero by 1974, but by that date the Board should have achieved savings of about the same order.

4.4 After taking account of these likely grant levels, and after charging interest, we estimate a deficit for the Board in 1974 of between £5m. and £55m.

4.5 On the basis of the above conclusions, we are satisfied that a considerable write-off of existing capital debt to the Minister is inevitable if the Board are to be given realistic financial objectives.

4.6 **We Recommend** that the capital debt of the Board should be written down to a level at which it can reasonably be expected that the interest payments can be found out of prospective revenue early in the 1970s.

4.7 **We Recommend** that the "break-even" thus envisaged should be based on neither too optimistic nor too pessimistic a forecast of the Board's revenues in the early 1970s.

4.8 **We Recommend** that the valuation of the assets should also be scaled down to what is represented by the new capital debt.

4.9 **We Recommend** that appropriate arrangements should be made for dealing with any surplus on revenue account in case, as a result of following the previous recommendations...
for cutting down the capital debt, the amount of write-off necessary has been overestimated; in particular, the Minister should have power to direct that any surplus, after taking the Board's requirements into account, is paid into the Exchequer.

4.10 We Recommend that there should no longer be provisions for deficit grants from the Minister (except perhaps for the transitional period 1969 to 1971); and in particular that no deficit grant should be payable in respect of depreciation provisions.

4.11 We Recommend that the Board's other continuing obligations deriving from the past (in respect of road bridges, level crossings, superannuation and the Police,) should be taken into account in the capital reconstruction which we recommend in paragraph 4.6 above and that there should not be specific and continuing grants.

4.12 We Recommend that ways should be found of compensating the Board for the cost to them of subventions to operators of bus services provided in place of withdrawn rail services.

STRUCTURE AND ORGANISATION

4.13 We conclude that the setting up of new national and regional transport organisations, and technical developments within the railways, will all influence the shape of the central structure of the Board, and the relationship between the centre and the Regions. Against this background we have tried to foresee the management structure which would be appropriate in a few years time, while recognising that there will be a transitional period during which different arrangements may be needed: on these we make no specific recommendations.
4.14 Our general conclusion is that the Board should as far as possible be free to concentrate on policy questions and in particular on the problems of future planning, and the individual members should not be tied down by day-to-day responsibilities for specific functions. We therefore Recommend that ultimately the Board should consist largely of non-functional members, and should be smaller than at present.

Chairman

4.15 We Recommend that the Chairman of the Board should be relieved of day-to-day responsibilities, in order to be able to concentrate on the major issues of policy, and to project the Board's image both within the organisation and to the public at large.

"Chief General Manager"

4.16 We Recommend that a single member of the Board should be responsible for controlling and co-ordinating all aspects of the day-to-day running of the railways. He is envisaged as a "Chief General Manager" whom it might be appropriate to appoint as a Deputy or Vice-Chairman. He would co-ordinate commercial, operating and technical requirements in respect of both passenger and freight traffic.

Planning

4.17 We Recommend that one member of the Board, who might be a Vice-Chairman, should have specific responsibility for the co-ordination of long range planning in the railways.

Finance

4.18 We Recommend that another member, who might also be a Vice-Chairman, should have specific responsibility for financial policy.
Labour Relations

4.19 We Recommend that one member of the Board should have specific responsibility for the longer-term development of labour relations.

Full-Time Members

4.20 We Recommend that in addition to the "Chief General Manager", and the members with responsibilities for planning, finance and labour relations, there should be provision for a minimum of two, and a maximum of five other full-time Board members.

Part-Time Members

4.21 We Recommend that there should be at least three part-time members, who should be appointed for their ability and experience rather than on any representational basis.

Period of Service of Part-Time Members

4.22 We Recommend that the period of service of part-time members should be restricted.

Remuneration, Etc., of Board Members and of Chief Officers

4.23 We are confident that substantial increases will be required in the level of remuneration and in other conditions of service (including pensions), both for Board members, and for Chief Officers, and we propose to make recommendations in a later report. There should be greater flexibility in the remuneration of part-time members than is now customary.

Regional Boards

4.24 We Recommend that the statutory provisions relating to the establishment of Regional Boards should be repealed.
The General Scheme of Organisation

4.25 We Recommend that the Railways Board should be required to submit a general scheme of organisation to the Minister for her approval within a specific period (say 12 months) of the coming into operation of the Act. The Minister should have a continuing power to initiate changes, if she thinks they are necessary.

TRADE UNION VIEWS

1.7 4.26 We have taken account in the above recommendations of the views which the Trade Unions expressed to us on matters of finance and general Board structure; their views on other subjects are set out in Appendix A, but their comments have not led us to make any specific recommendations on those of the matters to which they referred which are within our terms of reference.

"STANDBY" AND "SURPLUS" INFRASTRUCTURE CAPACITY

1.8 4.27 After a detailed investigation we have concluded that it is highly unlikely that "standby capacity" additional to that required for the railways' commercial and social services could be proved to exist as a permanent element of any foreseeable railway network. There definitely is surplus capacity in the system, however, and We Recommend that, for the reasons set out at length in paragraphs 2.20 to 2.23, it would be right to pay a grant to the Board, fixed in advance and on a tapering basis, to assist in the elimination of this surplus and the rationalisation of the system.
OTHER OBLIGATIONS DERIVING FROM THE PAST

Road Bridges and Level Crossings

4.28 We have concluded that, although there is a good case in equity for transferring road bridges over the railway to local or highway authorities, on the basis that they should be regarded as part of the highway, the case in law is less good, and the practical difficulties are too large to be ignored. We therefore Recommend that ownership of the bridges should remain with the Board, but that account should be taken of the costs of their maintenance, which amount to about £1½m. per annum, in the capital reconstruction which we recommend.

4.29 We also Recommend

4.29.1 that the Board's present payment of £40,000 per annum in respect of trunk road bridges should be discontinued;

4.29.2 that the Board's present responsibility for the surfaces of all overline bridges should be borne by the appropriate local authority;

4.29.3 that the Board's present duties in respect of the maintenance of bridges should be brought up-to-date, and

4.29.4 that the powers of the Inspecting Officers of Railways in relation to railway bridges already owned by local authorities should be extended.
responsibility for their Museum at Swindon to the Swindon Corporation but, that, failing this, they will have no alternative to continuing to bear the costs falling to them under the terms of their existing agreement with the Corporation.

**Railways Savings Banks**

2.17 4.35 **We Recommend** that account should be taken of the interest burden on these Savings Bank deposits in the capital reconstruction which we recommend.

**Transport Police**

2.18-19 4.36 We have concluded that there is a case for some public contribution towards these costs, to the extent of about £600,000 per annum, and **We Recommend** that this should be taken into account in the proposed capital reconstruction.

**Costing of Unremunerative Passenger Services**

D12 4.37 **We Recommend** that the costing basis used for the calculation of grants for these services from Passenger Transport Authorities should be the same as that adopted for the calculation of grants to be paid by the Minister.

**LEGISLATION**

4.38 Legislative provisions will be needed as follows:

4.38.1 An amendment of Section 1 of the Transport Act, 1962, to provide for the amended size and composition of the new Board, including a provision giving the Minister a power to appoint one or more members of the Board as Deputy or Vice-Chairman.
4.38.2 The repeal of Section 2 of the Transport Act, 1963, providing for the setting up of Regional Boards.

4.38.3 A provision requiring the Board to put forward a general scheme of organisation for the Minister's approval within a specified period.

4.38.4 Provisions to give effect to our financial recommendations.

4.38.5 Provisions to give effect to our recommendations on bridges over railways and museums and historical records.

APPRECIATION

4.39 Although we shall be submitting one or more further reports to you later in the year, the completion of this report and the Interim one which we submitted in January provides an appropriate opportunity for us to express our thanks for the assistance we have received from our two Joint Executive Directors, Mr. Hammond and Mr. Lazarus, and from the Secretariat. A very heavy burden of work has fallen on their shoulders, not only in the drafting and circulation of the numerous papers and minutes of our meetings but particularly in the preparation of this report. They have performed their tasks to our entire satisfaction and we are most grateful to them.

Signed on behalf of the Joint Steering Group

John Morris
Chairman

D. Barlow
Secretary

6th July, 1967
APPENDIX A

VIEWS OF THE RAILWAY TRADE UNIONS
ON MATTERS OTHER THAN FINANCE AND
MANAGEMENT STRUCTURE

A.1. We explained in our Interim Report (paragraph 2.8) that we hoped to have Union views on a number of matters, and we have now had written evidence from all three Railway Unions, and have held a separate meeting with representatives from each Union. We have had views from each Union both on finance and management structure, and have taken account of them in the recommendations which we make in Sections 2 and 3 of the main part of this Report. There are a number of other matters on which the Unions have put views to us which we think the Minister and the Chairman would wish us to report, and these are set out in the succeeding paragraphs.

Closures

A.2. All three Unions were in favour of a halt to further closures pending the determination of future policy. ASLEF thought that closure of lines and withdrawals of service should be halted pending the establishment of "a sound and rational basis for costing". They thought that joint consultation should play a greater part in the consideration of closures, and that the value of feeder lines to the main line services should receive greater emphasis. The NUR stressed the importance of correct costing of closures, and thought that the subsidies to bus operators which the Railways are required to pay as a condition of closure should be taken into account. TSSA pointed out the harm done to the railway image by continual closures, and the need to consider whether branch lines could not be saved by the kind of cost-cutting exercises now being carried out in East Anglia.

A.3. We explained to the Unions that in fact :-
A.3.1 Cooper Brothers have said that the Board's present costing principles are generally sound,
A.3.2 there is no evidence that the elimination of branch lines has deprived the railways of an appreciable amount of profitable traffic, and
A.3.3 passenger closures since the spring of 1963 are saving about £17m. per year.
A.4. ASLEF suggested that restricting the level of service on unremunerative lines was harmful to the image of the railways, but on the other hand in our Interim Report we recommended (paragraph II of Annex A) that the Minister and the Chairman should consider whether the Board should proceed with specific changes which would result in substantial savings in cost.
A.5. The NUR thought that there was a case for a contribution by local authorities towards the cost of providing railway services, because the value, for example, of houses in areas served by the railways is enhanced by improved railway services. We have been informed of the development of the policy outlined in the White Paper (paragraph 27) for part of the responsibility for the retention of passenger services to be devolved onto local communities. We do not think that this is a matter on which we could usefully comment further. We have, however, said in Section 2 of this Report that whilst further thought needs to be given to the means of meeting the cost of replacement bus services we are of the definite view that the Board should not longer be required to do so once the new finance provisions apply (See also paragraph II of Appendix D).
A.6. We were informed of the agreement that had been reached with the Unions that they should receive more detailed figures about the cost of railway services proposed for closure. The Ministry representatives agreed at the meeting with ASLEF that the Ministry would consider how they could take account of major points raised by the Unions about individual closures.
Road/Rail Track Costs

A.7. ASLEF stressed that road/rail competition should be rationalised, with particular reference to railway track costs. The Ministry representatives have provided us with a summary of the previous arguments on this issue, and at our meeting with ASLEF they put forward the view that overall the total cost of the road system (including various ancillary costs such as those of accidents) was heavily outweighed by the total licence duty and fuel tax derived from all road users. The Ministry also explained that they did not think that the case for saying that heavy goods vehicles and buses did not make an adequate contribution had been proved. We know that this is a matter which is very much under consideration in the Ministry, and do not think that it would be appropriate for us to make any further comment on the issues involved.

A.8. We have, however, recommended in Section 2 of this Report that specific account should be taken of the costs of railway-owned overline road bridges in the capital reconstruction of the Board.

Control of Withdrawals of Freight Services and Closures of Freight Stations

A.9. ASLEF recommended that these should be made subject to the control of the Minister, because of their importance for the overall transport policies which the Minister was now working out. At our meeting with ASLEF, the Board pointed out that their policy of freight concentration, and the use of liner trains, had in fact meant that more freight traffic was being carried on certain services. At the same time, the railways recognised that there were other freight traffics which would be declining.

A.10. We do not think that the case has been proved that closer Ministerial control over withdrawal of freight services and
closure of freight stations would serve any useful purpose, and we have decided not to make any specific recommendations. We explain in Appendices B and D to this Report that the Ministry and the Board are jointly pursuing certain questions relating to the allocation of track costs for freight services, and their implications for the control of the withdrawal of freight services, which arise from the Group's work on the problems of surplus infrastructure capacity.

Joint Consultation

A.11. This is one of the subjects being considered under the auspices of the Minister of Labour, and is not within the terms of reference given to us. We confine ourselves, therefore, to reporting that in the evidence given to us there was general stress on the need for improving the way in which the machinery for joint consultation was used. ASLEF said that whilst certain modifications were necessary, they thought that the present system was right. But harm had been done by this machinery being used for consideration of closure cases. TSSA took the same view that only minor modifications were necessary. But it was recognised that recent changes, and the number of closures had thrown a great strain on the system. None of the Unions suggested to us that any substantial modifications would be necessary.

Staff Participation in Management

A.12. TSSA thought that there should be more consultation with the staff, but that it would be wrong for the Unions to have any share in management decisions. There should be members with Trade Union experience on the Board, because of the individual contribution they could make, but there should not be direct Trade Union or staff representation on the Board.

A.13. This is a matter which is currently being considered by the Government in relation to all the nationalised industries and we do not think that we are required to comment on the views put to us. But we should explain that in looking at the overall
problem of the Board's management structure we have concentrated on the shape and size of the Board, and have not thought it necessary for us to recommend how Trade Union representation should be dealt with. This seems to be mainly a question for the Minister when she comes to make appointments to the new Board.

The necessity for Adequate Public Services

A.14 In their evidence the NUR pointed out the importance of clean and comfortable trains, a conveniently timed service, speedy services, courtesy and assistance from the staff, comfortable station facilities and punctuality of trains. These must be provided at an economic price. They also thought that further electrification was important. TSSA thought that a unified fare structure and well prepared timetables were important. They also stressed the need for the removal of derelict station buildings.

A.15. These all seem to be matters which properly lie within the management responsibility of the Board, and we would not wish to comment, except to emphasise that, as set out generally in our recommendations in Section 2, and apart from the unremunerative passenger services, which are to be grant aided on broad social and economic grounds, the need for the future will be for the Board to plan to provide services which are attractive to the public and which can be run at a profit.

Need for a Separate Police Force

A.16. The NUR thought that the present Transport Police tended to act on behalf of the Railway management in matters concerning individual railwaymen, and that there would be advantages in the Police being independent of the Railways Board.

A.17. This is not a question which we have been able to consider in any detail, but it seems to emerge from the work done by the Joint Team that there are very strong reasons why the existing Railway Police should be maintained. The views of the NUR on what is essentially a narrow aspect of the police
functions do not, in our view, go near to outweighing the arguments in favour of the force being continued.

Advantages of Electrification
A.18. As already stated the NUR regard this as important in order to provide a good standard of service for the public. TSSA thought it important for the good image of the railways.
A.19. No separate comment is necessary, other than to refer to the various places in this Report in which we have stressed the need for forward planning in order to ensure that, for the future, investment in major capital schemes is only approved in cases where the Board and the Minister are satisfied on the financial return to be obtained from the investment.

Need to Improve Career Prospects
A.20. TSSA referred to the importance of career prospects, and thought this could be achieved by improvement of the quality and conditions of work. Their main aim was that the best man possible should be acquired for a particular post, but so far as practicable the expertise already available within the industry should be fully utilised. Whilst recognising the need for movement between the various sectors of the nationalised transport industry, they were in principle against senior managers being recruited from outside industry.
A.21. At the meeting with TSSA, the Board representatives pointed out the need for injecting new blood into the railways from time to time, not least for training purposes. We accept the need for selecting the best available people for the top managerial posts, and clearly this cannot always be done by picking people already within the railway industry. But it is important, not least for the purpose of raising morale, that it should continue to be seen by all those within the industry that there is no bar to the promotion of able railwaymen to top posts.
Retention and Strengthening of the Financial Management Services

A.22. TSSA thought it important that this central service should be maintained and strengthened, and that even when NFO came into existence, there should be no attempt to split this central service. This was particularly important in the light of the greater use and complexity of computers.

A.23. We have included recommendations in Section 3 of this Report for the control of the central finance services. Cooper Brothers are due to report to us in the near future on management information and financial control, and we hope to put forward detailed recommendations in the autumn. We would expect that the administrative arrangements eventually agreed for the NFO would allow appropriate co-ordination in this field.

Labour Productivity

A.24. TSSA thought that this would be achieved by recruiting an improved quality of staff. They also pointed to the problems for supervisors of the bonus payments for wages staff.

A.25. These are clearly matters which fall within the Minister of Labour's enquiry, and we do not think that we should comment.
APPENDIX B

"STANDBY" AND "SURPLUS" INFRASTRUCTURE CAPACITY

SUMMARY

B.1. We referred in our Interim Report Annex A Part III to the Special Committee which we had set up to study in detail the concept of standby capacity which was specifically included in our terms of reference. We said then that we were agreed that we were concerned with standby capacity in infrastructure (i.e. formation, track and signalling, etc.) and not with any standby in terminals, depots or wagons and carriages. We were also agreed that the real question was how far, if at all, would the proposed future railway network, as broadly agreed between the Minister and the Chairman of the Board, contain standby capacity which was additional to that standby capacity required (a) on commercial grounds, and (b) for the social services. In other words, and this seemed to the Group a most important point to emphasise, we were looking for surplus which was additional to that which the railways would need for sound commercial reasons (e.g. to cope with predictable peaks or to assist operational efficiency.) We were also aiming to identify the nature of such surplus, why it existed, and, if any part of it was likely to persist, the reasons why.

B.2. In the light of details investigations carried out on their behalf, the Committee finally agreed that it was highly unlikely that standby capacity as set out above, (i.e. additional to that required for commercial and social services), could be proved to exist as a permanent element of any foreseeable railway network. We accept this view.
B.3. The Committee were agreed, however, that there definitely was considerable surplus capacity in the system, the cost of which the Board would be unable to bear unaided if the continuance of the deficit was to be avoided. The essential distinction is that standby capacity would have permanence: surplus is essentially temporary and capable of removal. This surplus was mainly a matter of excess track capacity, and was related only to a minor extent to excess route mileage. In other words, it was more relevant to look at the width of the individual routes within the system, rather than at its total length.

B.4. As described in detail in paragraphs B.12 to B.14 below, we accepted the Committee's recommendation that a programme of work should be settled to identify this surplus, so that its cost could be assessed, and a programme could subsequently be agreed for its elimination.

WORK OF THE STANDBY CAPACITY COMMITTEE

Surplus in the System as a Whole

B.5. An initial approach adopted by the Committee was to assume that standby capacity was maintained by the railways in the form of a number of routes which were additional to those which would be provided by a fully commercial system. Thus it was thought that the difference between the 8,000 miles of route which would have been likely to result from the approach contained in the Board's report, "The Development of the Major Railway Trunk Routes", published in 1965, and the 11,000 mile system subsequently agreed between the Ministry and the Railways, might disclose a quantifiable amount of standby capacity. Consideration of these 3,000 miles of route and of the routes on the remaining 8,000 miles, disclosed that the Committee should be looking at route capacity rather than route miles as such.
Examination of Specific Routes

B.6. The Board suggested that it might be helpful for the Committee if special studies were made of a number of individual routes of widely varying characteristics. Three such studies were made by a Ministry economist working on data provided by British Railways Board.

B.6.1 The first route studied was the East Coast main line from King's Cross to Doncaster. The study identified some surplus capacity, which would permit the running of an additional 36 express passenger trains, or 18 slow freight trains per day. Its cause was the need to have a signalling system which would pass express passenger trains at very frequent intervals during peak periods. In consequence, capacity was available for the rest of the day, but it had not so far been possible to sell this capacity to users. It was implicit that the net revenue from peak passenger services adequately covered the cost of providing this surplus capacity.

B.6.2 The next route studied, Plymouth to Penzance, was a "secondary" route on which the long term decline in summer holiday traffic had rendered some of the track capacity superfluous to present requirements. It was found, however, that the regional management has plans for completely revised train services on the route, with a consequent reduction of the track mileage, and an increase in track utilisation. The route, which is at present nearly all of double track is proposed for reduction to mainly single track with appropriate passing loops. The resulting train and track capacity is considered adequate for present and future needs. This was a case where surplus capacity had been identified,
but by re-arranging and reducing the train services, it would be possible to eliminate nearly all of the surplus capacity. Some investment would be required for the singling project, but the potential savings were very high in comparison with the investment required.

B.6.3 Finally, a study was made of the Weaver Junction to Glasgow route, as it would be after electrification. This is a route on which the railways would have almost complete freedom to adjust the capacity to suit future commercial and operating requirements. Even with this freedom, it was proposed to install surplus capacity, so that the day-long rate of utilisation would be only just over 60%. As with the East Cost main line, this high level of capacity was caused by the need to signal the route to carry short-run peaks of traffic at certain times of the day. As these would in themselves be profitable traffics, even including the cost of the extra capacity they required, it was concluded that the existence of the surplus capacity on the route would not impose a financial handicap upon the railways.

B.7. It was implicit in these three reports that it is possible to tailor the infrastructure capacity of a route to the expected volume and mix of traffic at least in the long term. Any surplus is, therefore, almost entirely a matter of commercial choice (e.g. to cope with profitable peaks) or of history. There may well be circumstances in which it is cheaper to leave the surplus, at any rate for a time, than to incur the expenditure required to eliminate it.
Distinction between Standby and Surplus

B.8. The Committee finally agreed, and we accept, that there is certainly surplus capacity in the existing network, and this creates a financial problem since, as the Board have consistently maintained, to leave the whole responsibility with them will merely ensure the continuance of the deficit. The Committee therefore came to the conclusion that the best way forward was to try to agree about the size and cost of this surplus infrastructure capacity, to decide how long it would take to eliminate it, and then to agree on a method of payment which would provide an incentive to the Board to get rid of this surplus as soon as possible. The Committee agreed that, given time, there should be no difficulty in calculating the extent of the surplus, though they recognised that it might vary over time in the light of changed traffic levels.

Proposals for Identification of Surplus Capacity

B.9. The Committee agreed that the extent of surplus infrastructure would depend on the number and types of trains to be run. It could not, therefore, be divorced from operating and commercial considerations. Only the Board would be in a position to identify this surplus infrastructure in the light of the profitability of the traffics concerned. Most of it would probably be found to be on the "secondary" system, but some would be on the "primary" system. Most of it, also, would be in the form of double or multiple track, some of which could be reduced, thus lowering maintenance costs without reducing the route mileage.

B.10. On lines used only by grant-aided passenger services, the Committee assumed that the full cost of the minimum necessary track capacity for these services would qualify for the social grant. Any existing capacity in excess of the minimum requirements should be identified separately and included in the calculation of surplus capacity, with plans for its elimination.
B.11. Special problems arose in the identification of surplus capacity and the allocation of costs for grant purposes on lines carrying freight as well as grant-aided passenger services, and also on "freight only" lines. The allocation of track costs, where a line is shared between freight and passenger services, is a difficult question, and it may not always be right to accept the recommendation in the original report from Cooper Brothers on Costing principles, which advocated a continuance of the Railways' present practice of calculating this on the basis of total train weights. As set out in Appendix D, we are hoping to be in a position to make firm recommendations about this later in the year.

Recommendations

B.12. The Committee therefore recommended that the following plan of action should be taken by the Board:

B.12.1 they should identify all existing surplus capacity whether on the secondary or primary system;

B.12.2 they should identify those lines on the secondary system which would be needed for social passenger services, but on which, whilst they are so used, the Board would also run freight services. In respect of these, the Board should consider whether the freight services were likely to require additional infrastructure and whether they could meet its cost;

B.12.3 they should estimate the cost of the continuing maintenance of each element of surplus capacity and the capital cost (if any) of its elimination;

B.12.4 they should prepare a programme for the elimination of surplus capacity (taking into account the commitment to an 11,000 mile system).

B.13. A capital investment programme should then be agreed with the Ministry for the elimination of the surplus. A grant should also be agreed, on a diminishing basis, which would, in the first year, pay for the actual cost of maintaining this surplus. The grant would be paid annually at a level which would be fixed in advance,
and which would be reduced year by year at a rate which assumed that the agreed elimination programme could be maintained. The effect of this should be that the Board would be relieved of all the costs of their non-commercial surplus infrastructure provided that they succeeded in cutting it out as quickly as the programme envisaged. The Board would then be left with a network which, after taking account of the social subsidies, should be able to play its part on a commercial basis in the country's transport system. It would be a much slimmer network than at present but it would retain the margin needed for commercial reasons, and the Committee did not believe that any additional surplus capacity need, or should, be maintained.

IMPLEMENTATION OF THE COMMITTEE'S RECOMMENDATION

B.14. We accepted all these recommendations, and decided to set up a further Committee to assist the Board in the formulation of their detailed proposals for the identification and costing of surplus infrastructure and the preliminary assessment of its cost. The remaining paragraphs in this Appendix described the progress that has so far been made with this work.

B.15. There are three separate stages involved:

B.15.1 The preparation of the broad estimate, which we have included in Section 2 of this Report.

B.15.2 Further work designed to produce, by the autumn, a more reliable estimate.

B.15.3 The preparation over the next 18 months of a detailed assessment of surplus, line by line, the calculation of its cost and the preparation of a plan for its elimination over a stated period.

Preparation of a Detailed Assessment of Surplus, and its cost.

Definition of Surplus

B.16. It is assumed that it will be necessary to maintain and provide services over a specific route mileage determined by the
Network for Development, published in March 1967. In that context surplus track and signalling capacity can be defined as that which can be eliminated at no cost, or at a cost which will show a reasonable return on any necessary investment, and yet still leave sufficient capacity to operate such services as are commercially desirable and those services which the Minister decides should be retained on broad social and economic grounds.

Establishment of Surplus

B.17. To establish the extent of this surplus, a critical examination must be made of the need for all track and signalling comprising the 11,000 route mile network in relation to the traffic likely to be available on a commercial basis and for social needs, as well as the methods by which this traffic will be moved.

B.18. We assume that the proposed Bill will become law during 1968, and that the Government will decide to commence the payment of grants in respect of this surplus from 1st January, 1969. We refer, in future, to this date as the "prescribed date". We think it is a reasonable assumption that it will be feasible for the Board, before the prescribed date, to produce a sufficiently accurate assessment of surplus, and its cost, on which the total amount of grant can be calculated.

B.19. The Board have made it clear that so far as commercial desirable traffics are concerned account must be taken of the precepts contained in the report on the Development of the Railway Trunk Routes, for the concentration of the maximum volume of through traffic over the minimum of routes to reduce the cost per unit carried.

B.20. Even the best estimate of surplus capacity, however, can be no more than an approximation of a theoretical position which could exist at some point in time. It can never truly reflect the actual position on the track as changes in train speeds, speed
mix, and methods of operation will take place continually to improve efficiency and productivity; the demand for rail transport will also change, and these factors will vary the actual degree of surplus capacity. It will be necessary before the "prescribed date" to make an assessment of surplus as it will be likely to exist on that date, or to be created over the period during which grants will be payable (see paragraph B.21 below). We assume that this will be five years, and we refer hence forward to this five year period, ending on 1st January, 1974, as the "prescribed period". This assessment will be required for the purpose of calculating the size of the grant. But we recognise that this is necessarily a somewhat artificial picture, and that in practice the Board will need to review the extent of any surplus capacity as a continuing process.

B.21. We are agreed that the Board will be required to assess not only the current surplus at the prescribed date, but also that surplus which will be created by the changes in the levels of traffic, and changes in operating methods and signalling over the next few years and which, at least as to the major part, they expect to be able to eliminate over that period. For this purpose the Board will estimate the likely pattern of operations by the end of the prescribed period in 1974, and use this estimate as the basis for their calculations. They will also include all surplus which is currently in existence at the time that each individual line is surveyed. A record will be kept of all surplus removed prior to the prescribed date, and the grant will cover the balance of surplus remaining.

B.22. The Board have made it plain that while they accept their obligation to reduce track and signalling facilities to a minimum commensurate with the services to be provided, the identification of surplus and its removal cannot coincide in time. To achieve the necessary reductions it will be necessary in many cases to resignal, to install track circuits and automatic level crossing barriers, to re-lay and re-align track and eliminate points and crossings. There is a limit to the physical resources available
for this work in design offices, in contracting firms, in railway
works and on the track itself, and the Board regard it as
unrealistic to suppose that resources can be concentrated to
eliminate surplus capacity from the network at a very rapid
pace. The most convenient time at which to simplify a railway
layout is when re-laying of the track becomes necessary or
when signalling assets have reached the end of their useful life
and must be replaced. But there may be economic and financial
reasons why earlier change is necessary.

B.23. A decision about the priority to be given to the work
involved in eliminating surplus will have to be reached by the
Ministry and the Board direct when the full assessment of surplus
has been completed, and when it is possible to compare the result
from expenditure on the elimination of surplus against the expected
return on investment for the development of the main routes and
facilities. The Board set a high value on the use of the available
resources for modernising and developing main routes to improve
efficiency so that the best service can be given to the greatest
number of the population and the largest sectors of industry. They
believe that, in terms of cash contribution to viability, with the
limited physical resources available, investment in track and
signalling on a trunk route, associated with electrification, should
achieve more and produce a much better net return to the railway
than investment in the engineering work required for the elimination
of surplus. But they recognise that it will be necessary to revise
the priorities when the detailed assessment of surplus is available
and we agree that this assessment should be produced as quickly
as possible. When it is available, the Board and the Ministry will
have to explore alternative policies and estimate their effect.
Grant for Surplus

B.24. When the surplus has been identified by the methods described above, and to the extent that elimination will not have taken place by the prescribed date, the amount of the grant for surplus infrastructure to be paid initially (i.e. in 1969) will be based on:

B.24.1 the annual cost of the maintenance of track and signalling installations; and

B.24.2 signalling operation costs,

for those surplus facilities which will exist on the prescribed date, or which the Board estimate will be created during the prescribed period. Pending settlement of the new capital structure for the railways it will not be possible to determine the future interest and depreciation element in the cost of surplus. For the time being, therefore, in the assessment of the cost of surplus, interest and amortisation as it would be in present conditions, should be shown separately.

Method of Calculation for different categories of line

B.25. The Board have informed us of the methods which they propose to adopt for the identification of surplus and the assessment of its cost and have explained that for this purpose it will be essential to divide the rail network into several different categories related to its use and the type of service operated. We endorse their method of approach.

Assumptions Used for the Estimate of the Order of Magnitude Figure

B.26. We have explained in paragraph B.18 that we think it is a reasonable assumption that the detailed assessment can be substantially completed by 1st January, 1969. But it clearly cannot be done in any shorter period. In order to produce an order of magnitude figure, short cut methods had to be employed, and we accept the Committee's view that these methods are acceptable within the time constraint.
B.27. The figures of the cost of surplus as estimated by the Board, together with the justification for a grant, have been included in Section 2 of this Report, dealing with the Board's overall financial situation. The Board, with assistance from the Ministry of Transport economists, will refine these figures so far as possible over the next few months in order to produce the best available estimate before transport legislation is introduced into Parliament. We must emphasise, however, that there is bound to be a large element of uncertainty until the Board have identified in detail when surplus exists or can be created.
OTHER OBLIGATIONS DERIVING FROM THE PAST

C.1. We have explained in paragraph 1.9 that the Joint Teams have completed the work to which reference was made in our earlier Report, where we gave a fairly full progress statement in Part IV of Annex A. The following paragraphs set out our final conclusions and recommendations, except in so far as they involve finance, in which case they have already been included in Section 2 of the main Report.

ROAD BRIDGES AND LEVEL CROSSINGS

C.2. As recorded in our last Report, we asked the Team to give further consideration to the difficulties which we envisaged arising from their earlier recommendations for the complete transfer of responsibility for these bridges to local authorities and the Joint Team was reconstituted on a wider basis.

Bridges

C.3. In principle, existing highway overline bridges should be regarded as part of the highway, and it is clearly inappropriate that financial responsibility should remain with the railways. Although it would seem logical to transfer the bridges to highway authorities, this is impossible because of the way the Rate Support Grant is distributed. It would, therefore, be necessary to transfer them to the larger local authorities. But the Rate Support Grant is based on complicated calculations which would make it impossible to compensate the local authorities in an equitable manner. (Figures submitted to us show that the compensation for the transfer of these bridges would vary as between one authority and another from £100 to £500 per bridge per annum).

C.4. We have had to conclude that, although there is a good case in equity for transferring the bridges, in law the case is less good, and the practical difficulties are too large to be ignored. In reaching this conclusion we have also had in mind that these
bridges represent only one-sixth of all the bridges for which the Board are responsible, and that in any case it would be sensible, on manpower grounds, (as well as for safety reasons), to leave the responsibility for the physical maintenance of these bridges with the Board, since in practice, even if they lost responsibility for these bridges, the Board could hardly make any reduction in their maintenance staff.

C.5. We therefore recommend that ownership of road bridges over the railway should remain with the Board, but that as set out in Section 2, account should be taken of these costs, which amount to about £1.5m. per annum, in the financial reconstruction which we propose.

C.6. We also recommend that the Board's present payment of £40,000 per annum in respect of trunk road bridges should be discontinued. We also suggest that, even if the bridges themselves are to continue in the Board's ownership, their present responsibility for the surfaces of all overline bridges should be borne by the appropriate local authority. Finally, the Transport Bill should bring up-to-date the Board's present duties in respect of maintenance at present based on minimum legal liability, and the powers of the Inspecting Officers of Railways in relation to railway bridges already owned by local authorities should be extended.

Level Crossings

C.7. So far as level crossings are concerned, we have concluded that the method of crossing operation, and the fact that control must remain with the railways, make it quite impossible to seek any financial contribution from the local authorities to the operating costs of public road level crossings, although we note the Ministry's proposal to introduce legislation empowering local authorities to contribute to the capital cost of their improvement. C.8. In view of the extent to which level crossing costs have been inflated as a result of the growth in road traffic, and the change in its nature, and also in the light of the additional
responsibilities which we are informed the Minister proposes to put on the Board in respect of accommodation and occupation crossings, we think that it would be right to relieve the Board of a figure of the order of £1m. per year. We have recommended in Section 2 of this Report that this is the figure which should be taken into account in the calculations leading to our proposals for recapitalisation.

PENSIONS

C.9. We explained in our Interim Report (Annex A paragraphs 20 to 22) that the main questions to resolve were whether, and if so how far, the Board should be relieved of superannuation and pension liabilities relating to staff previously employed on social or abandoned lines, and its obligations which result from decisions of the Board’s predecessors. There was also the problem of the interest burden on superannuation and pension fund deposits and provisions which were no longer represented by any viable assets. We realised that in facing these issues we were asking whether the Board should, in effect, be regarded as a new body, starting afresh from the current date, with only the liabilities that they had chosen to impose on themselves for the future, or whether it was right that they should be saddled with some part at least of the legacy of the past.

C.10. We suggested at that time that if the arguments for releasing the Board from its obligations should be accepted in full, this might represent a sum of the order of £15m. to £20m. per year. To do so, however, would be a most unfortunate precedent for other industries in a similar position.

C.11. We have now looked into the figures in more detail, and think it may be helpful to set them out under two separate heads as follows:
C.11.1 The Interest Burden

Using 1965 figures the Board had to pay

C.11.1.1 Interest on Superannuation and Pension Fund portion of Provision for Retirement Benefits. £3.6m p.a.

C.11.1.2 Interest on Fund balances held on deposit by British Railways Board. £6.2m p.a.

C.11.1.3 Interest on balance of BTC (Male Wages Grades) Pension Scheme. £1m p.a.

Total £10.8m p.a.

The capital sums to which these interest charges relate (about £270m.) are not represented by cash, but by fixed assets in which, at one time or another, the monies have been invested. They are an integral part of the capital structure of the Board and the interest charges to which they give rise cannot be considered separately from the question of the overall interest burden of the Board's capital liabilities.

C.11.2 The Pensions Obligations resulting from the decisions, and practices, of the Board's predecessors

These obligations include the following:

C.11.2.1 Future charges to revenue in respect of a deficiency (not yet quantified) emerging from the application of realistic assumptions on wages, etc. to the valuation of the funds. The present capital value of these deficiencies may well amount to a further £50m.
An unquantified figure reflecting the extent to which the Board may be involved in further deficiency payments attributable to what the Board consider to be the unduly generous provisions of the LMS Pension Scheme.

The Joint Working Team have estimated that these and other pension obligations of which the Board consider they should be relieved (these include charges to revenue in respect of the liquidation of Superannuation Fund deficiencies, the difference between the rate of interest credited to funds deposited with the Board and a realistic rate of interest, the difference between the contributions actually being paid by salaried staff and what they would be paying under the contribution rates prescribed in the new pensions scheme, the cost of future deficiencies and the cost of payments under non-statutory customary practices) might amount to about £8m. to £9m. per annum, but this depends to a considerable extent on the rate at which any deficiencies in the Fund were to be liquidated.

These sums together add up to a total of about £17m. to £20m. per annum. As set out above, something over half of this relates to the interest burden on sums invested with the Board, the remainder to the burden on the Board resulting from decisions of their predecessors.

In addition to the foregoing there is a capital obligation estimated at £20m. (resulting in an annual revenue charge of £1.6m.) in respect of the back-dating element of the new wages grade fund and continuing obligations of £0.15m. a year in respect of the extension of the benefits of the new fund to staff who retired between 1st January 1967 and the start of the new fund in August 1967. There are also deficiencies on other funds of the
order of £20m. which are being currently met by charges to revenue at the rate of £1.5m. a year. This figure together with the £1.6m. mentioned earlier and the £0.15m., have been allowed for as expenditure chargeable to revenue in the long-range revenue forecasts.

C.14. We accept the arguments which we mentioned in our last Report that it would set a dangerous precedent to make any specific grants in relief of the Board's pension obligations. These are clearly obligations which have to be met, and the only question is whether the payment should and could be made in future by the Board. We recommend in Section 2 of this Report that account should be taken of these obligations in the financial reconstruction which we propose.

C.15. So far as can now be assessed (although these figures will need further study) the total capital value of the pensions obligations is of the order of £370m. as compared with £275m. in the balance sheet at 31st December 1966. The capital values adopted for the reappraised superannuation obligations assume an interest rate of 5% compared with the current rate of 4%. The future annual interest burden will therefore be of the order of £19m. compared with the present figure of £11m. Against this increase of £8m. can be offset the avoidance of deficiency charges to revenue of some £3m. leaving £5m. increased charges to be taken into account in the forward revenue estimates and the assessment of the debt to the Minister.

MUSEUMS AND HISTORICAL RECORDS

C.16. Since we submitted our Interim Report the Joint Team have been investigating the feasibility of implementing their main recommendation, that it would be in the interests of the Railways Board, and beneficial from the standpoint of museum policy generally, that the Board should build a new Transport Museum, for transfer to the Department of Education and Science as an outstation of the Science Museum, with the funds realised from the sale of the Clapham site.
After receiving their further report our main conclusions and recommendations are as follows:

C.17.1 It would not be possible to set up a new purpose-built transport museum, the primary purpose of which was to replace the museum at Clapham, within the financial limits imposed by the earlier recommendation that the funds should come from the sale of the Clapham site.

C.17.2 The conversion of an existing building would enable a new museum to be provided out of the money released - which would probably amount to about £517,000 - by the sale of the sites of the present museums at Clapham and York. Neither the Railways Board nor the London Transport Board have a building available in the London area, but the Railways Board have suggested the conversion of a motive power depot at York which would be well fitted to serve as a transport museum, and which could be satisfactorily converted within the limits imposed by available funds. The Department of Education and Science would, subject to approval by Ministers, be prepared to assume responsibility for a museum provided in this way, and the Ministry of Public Building and Works would accept responsibility for its maintenance.

C.17.3 If the proposed new museum at York was administered by the Department of Education and Science, and the policy of charging for admission was continued, total net costs would be about £15,000 a year less than those at present incurred by the Railways Board on the existing transport museums at Clapham and York. Since museum costs go to swell the railway deficit, a move to York would reduce the total cost of the museums to the Exchequer, provided that the Department of Education and Science were to continue the present
charging policy. (To discontinue this charging policy would increase the present annual costs of the collections to the Exchequer by about £10,000 p.a.)

C.17.4 The conversion of the York depot would provide enough space for all those railway exhibits which, in the view of the Science Museum, merit preservation in a national transport collection. The London Transport Board have indicated that they would prefer to take their own relics back into their keeping rather than see them removed to York, and we understand that this should result in a decrease in the London Transport Board's annual expenditure on relics.

C.17.5 We recommend that those exhibits which would not qualify for inclusion in a national collection should, in accordance with the established practice, in the first instance be offered free of charge to local museums and recognised preservation societies, and those for which homes were not found should be sold. Any sums realised in this way should be added to the funds available for setting up the new museum.

C.17.6 The Department of Education and Science would not be willing to assume responsibility for the museum at Swindon. We therefore recommend that the Railways Board should attempt to negotiate the transfer of responsibility for the museum at Swindon to Swindon Corporation. Should this prove impossible, we think that the Board have no alternative to continuing to bear the costs falling to them under the terms of the existing agreement.

C.17.7 Whilst it would be physically possible to accommodate the records at present held in the Railways Board's Record Office in London in a small extension, costing about £60,000, to the proposed York Museum, it is
improbable that this could be done within the agreed financial limits. But in view of the small sum concerned we recommend that the occasion should be taken to transfer the historical records to York, even if this cannot be done entirely within the financial limits set by the proceeds from the sale of the Clapham and York sites.

C.18.8 The Standing Commissions on Museums and Galleries have been consulted and are broadly satisfied with the above proposals.

C.17.9 We finally recommend that provision should be made in the forthcoming Bill to enable these proposals to be carried out, and that the necessary arrangements might be left to the Board and the Ministry.

RAILWAYS SAVINGS BANK

C.18. We included four specific recommendations in our Interim Report (Annex A paragraph 31). We have dealt in Section 2 of this Report with the implication of the interest burden on these Savings Banks deposits. No other point arises on this subject, apart from recording that, the Board have already largely implemented the recommendations which we made. Following the centralisation and computerisation of the existing banks at Darlington a new BR Savings Bank has now been established and the former banks closed.

TRANSPORT POLICE

C.19. We set out a brief statement of the arguments for and against some element of Exchequer grant for the Police in our last Report, and said that our study of this item was still continuing. In the event, the Joint Team was strengthened so as to include inter alia a Treasury representative, and the Finance Officer from the Home Office, and submitted a further Report.
C.20. We are clear that while it is a matter for the Railways Board to consider whether they want to maintain a Police Force, and that an element of the force is entirely a commercial responsibility of the Board itself, at the same time it could be said that some part of the benefit from the particular services of the Police devoted
   C.20.1 to the detection of crime and
   C.20.2 to general public services
(to which we referred in paragraph 32 of Annex A to our earlier Report) accrued to the general public and afforded relief to the civil forces.

C.21. It has proved impossible to provide a precise assessment of Police services and their benefits and any apportionment must necessarily be a matter of judgment. Some of us have argued that apart from any fall out benefit from the services of the Transport Police as a whole, the particular benefits accruing from the services devoted to the detection of crime and the general public services were sufficiently substantial to merit financial recognition.

C.22. Others of us disagree with this view, and do not think that it has been established that, if the Board decided to limit their police services to what would be desirable on commercial grounds, this would make a significant reduction in the British Transport Police and its cost. It is in their view clearly unreasonable to describe any fall out benefit to the community at large as being "substantial". Moreover, there are fall out benefits in the other direction, i.e. to the Board from the activities of the civil Police.

C.23. We have finally concluded that we must accept that there is a case for some public contribution towards these costs. The main reason for this is that the Transport Police clearly perform duties over and above those which are proper to a commercial organisation. In the past it has been expected that public bodies should assume some social obligations without remuneration, but we
take it that it is now established Government policy to recompense
the railways for expenditure incurred for social reasons. No
precise basis for apportionment can be arrived at, but we suggest
that calculations should be based on 50 per cent of the cost of the
force attributable to CID and to general public service functions.
This would amount to about £600,000 per annum, i.e. about
20% of the total cost of maintaining the British Transport Police.
C.24. We have therefore recommended in Section 2 of this
Report that the continuing services by the British Transport
Police to the general public should be recognised by including in
the proposed capital reconstruction of the Board a specific element
in respect of these Police costs.
UNRENUMERATIVE PASSENGER SERVICES

D.1. We explained in our Interim Report that the P-E Consulting Group had been engaged in the preparation of a form of questionnaire, all or part of which, depending on circumstances, would need to be completed by the British Railways Board in respect of each service before an application for a social grant was made, and which could then serve as the actual application form for such a grant. Subsequently, this work was developed by Cooper Brothers, and they have now produced a form of questionnaire which we have provisionally approved, and which is being tested in practice for a sample exercise covering some 25 unremunerative passenger services.

D.2. The purpose of the questionnaire is:

D.2.1 to provide the Ministry with information on:

D.2.1.1 the present service and its operating methods;

D.2.1.2 the present usage of the service and its financial results;

D.2.1.3 the Board's proposals for changes in the service and its operating methods;

D.2.1.4 a forecast of the financial results for three years ahead.

D.2.2 to enable the Board to demonstrate that the service is being, or is planned to be, operated at an optimum level - that is, at the minimum deficit consistent with meeting the local demand.
D.2.3 to provide the Ministry with the basic information to assist them to make an assessment of:­

D.2.3.1 whether the social need is sufficient to justify the subsidy;

D.2.3.2 whether there is any scope for improving the financial results by reducing the level of service or improving operating methods while still satisfying the basic social need.

The assessment will have to start from the present service, but the questionnaire is designed to lead to a decision being based on the best available assessment of future needs.

D.3. The assessment of social need is fundamental to the Minister's decision as to whether or not a service should be grant-aided. The questionnaire provides for the Ministry to receive basic information on the present usage of the rail service together with a list of alternative transport services. The Consultants have advised that, in their view, this basic information should be sufficient in the majority of cases. In some, borderline, cases more information is required than the Board has in their possession and the Ministry will have to obtain this from whatever source is most convenient, including possibly in the most difficult cases mounting a full market survey of passenger demand.

D.4. The present and projected financial results will be set out in full, and will also be expressed in terms of

D.4.1 percentages of earnings;

D.4.2 rates per train mile; and

D.4.3 rates per passenger mile.

The expression of the deficit as a percentage of earnings will be helpful by showing the extent to which current passengers are in fact paying their way. The expression of a rate per train mile will be useful primarily as a basis for comparison between services with similar characteristics. The Consultants hope that the figure...
expressed as a rate per passenger mile will be particularly useful as an evaluation of the passenger benefit which would result from the payment of a grant. Whilst there will clearly be cases where on very strong social hardship grounds it may be necessary to pay an exceptional rate per passenger mile, this figure should prove a yardstick against which preliminary decisions can be reached. It will also be a useful tool for the determination of priorities if, in the long run, the total amount of these grants has to be contained within an annual estimate.

Cost Escalation and Incentives for Cost Reduction

D.5. In their original Report on Subsidies, Cooper Brothers recommended that the subsidy should be agreed for a period of 3 years and that no provision should be made for escalation of costs. We accepted this recommendation in our Interim Report. It now emerges clearly that, if this form of questionnaire is to be used, the Board will be required to take into account any possible economies in calculating the amount of the deficit which is to be grant-aided. It may, therefore, be more difficult for them to meet major increases in costs over the 3 year period. We have not yet found any solution to this point, but we propose to return to it when the assessments of the first 25 services have been completed.

Track and Signalling Costs

D.6. In their original report, Cooper Brothers suggested, and we recommended, that track and signalling costs should be allocated to services according to the weight and number of trains concerned. In the light of the work of the Committee set up to consider standby capacity, we are now considering whether it would be more logical, in cases where the capacity of a route is determined solely by the peak needs of a grant-aided passenger service, for that service to bear most of the costs of the track and signalling, with the other services only bearing a proportion of the wear and tear costs. This would be particularly significant
in cases where a line was used jointly by a commuter passenger service and by other passenger and freight services. We are arranging that, in the processing of the sample exercise to which we have already referred, both methods of allocating track costs should be tried out, in order that we can see the practical effect of the alternative approaches. We propose to make further recommendations on this point in due course.

Interest

D.7. We referred in paragraph 3.8 of our Interim Report, to the need to determine the basis on which an appropriate interest charge should be made for the assets used in providing unremunerative passenger services. We are agreed that in respect of these services the grant payable should include interest as a cost ranking for specific grant. When the grant is paid by the Ministry we recommend that the basis should be a reasonable attribution of the actual interest payable by the Board. This should be subject to further discussion between the Ministry and the Board.

Capital Losses on Subsidised Lines

D.8. We pointed out in paragraph 3.16 of our Interim Report that if a subsidised service were withdrawn before the fixed assets had been fully depreciated, then the Board would make a capital loss, and we said that we were considering how this should be met. D.9 We are agreed that in these circumstances the Board should be compensated. Consideration must also be given to cases where expenditure on renewals and periodic maintenance has not been fully recovered when the decision is taken to withdraw the service. We do not, however, think that it is for the Group to recommend the precise means by which this should be achieved, and this can be pursued direct between the Ministry and the Board.

Cost of Replacement Bus Services

D.10 We pointed out in paragraph 3.23 of our Interim Report that we still had to consider how best to cover the subventions to operators of bus services provided as a condition of the withdrawal of rail services.
D.11 We have still not been able to consider a detailed method for this, because discussions are continuing within the Ministry as to the provisions to be included in the forthcoming Transport Bill about bus services generally. Obviously the best method for dealing with the comparatively small number of bus services provided in replacement for withdrawn rail services will depend on the general pattern of the provisions to be made about the greater number of bus services for the country as a whole. We are however clear that it follows from the new proposals for the Board's finance that the responsibility for these bus services should be removed from the railways.

Passenger Transport Authorities

D.12 We have been kept informed by the Ministry about the development of thinking on the constitution and duties of Passenger Transport Authorities. It is clear that, certainly in respect of unremunerative passenger services wholly within conurbations, the arrangements which we have recommended for the payment of grants will not apply, and that the responsibility for paying grants will be laid upon these new Authorities. But on the assumption that this will not affect the overall financial position of the Board, we do not think that it is for us to go into the details of the arrangements which will be required. We strongly recommend, however, that the costing basis used for these calculations should be the same as that adopted for the calculation of grants to be paid by the Minister.

Future Programme of Work

D.13 The results of the sample exercise mentioned in paragraph 1 of this Appendix will be available in the autumn, and we then propose to review the whole situation, and to see how far the recommendations of the Consultants will be adequate for dealing with the identification of unremunerative services, the costing of them, and the preparation of material on which the
Minister can make a decision as to whether the service should be grant-aided on broad social and economic grounds. We hope that it will be possible for us to submit a further report early in the Autumn, and the thenceforward the railways can proceed with the submission of cases in respect of all the unremunerative passenger services which fall within the field of our previous recommendations. We regard it as important that this should be done as quickly as possible so that, even before a statutory grant scheme comes into full operation, the Board may be able to quote in their annual report more exact figures of the extent to which the deficit is related to the burden of these unremunerative, but socially necessary, passenger services.
LONG-TERM REVENUE FORECASTS
Summary of Economic assumptions on which forecasts were prepared

E.1.1 Between 1967 and 1975 total output will expand by 3 per cent per annum, industrial production by 3.3 per cent and wages will rise, in real terms, by 3 per cent per annum. There will be no inflation and no change in the prices paid by the Board for materials and services.

E.1.2 Coal consumption and exports which amounted to 178m. tons in 1966, will decline to 158m. in 1969 and about 135m. tons in 1974. * Within the totals, coal for electricity generation will rise slightly. Consumption by the steel industry will be maintained and the remaining uses will decline, some drastically - e.g. domestic. Production will be concentrated increasingly on the East Midlands and South Yorkshire.

E.1.3 Steel production, which was 24\(^{1}/2\)m. tons in 1966, will increase to 28m. tons in 1969 and 31/32m. tons in 1974. The changeover to imported iron ore will continue and be substantially complete by 1974.

E.1.4 Oil growth will be diminished, but not vitally, by natural gas developments.

E.1.5 Chemicals will represent an important growth industry.

E.1.6 The population will rise by 2\(\frac{1}{3}\) million by 1974. Consumer expenditure will increase by 2.2 per cent per annum and car ownership, at present 9\(\frac{1}{2}\)m., will reach 16m. Competition from air will be maintained on main routes over 200 miles and, with a likely decrease in the cost of motoring in real terms, car competition will increase.

E.1.7 There will be no Channel Tunnel by 1974.

E.1.8 The 11,000 mile network will be reached in 1969 and maintained until 1974.
E.1.9 There will be no major difficulty in securing an allocation of investment for profitable projects or those essential to maintain profitable services.

E.1.10 There will be no difficulty in getting rid of freight traffic or services which cannot be made profitable.

E.1.11 The relationship with the National Freight Organisation will be such that the Railways' present losses on sundries, which is of the order of £20m. per annum, will be wholly transferred to that Organisation.

* The Finance Sub-Group considered an alternative estimate on the basis of 120m. tons in 1974.
## BRITISH RAILWAYS BOARD

### LONG TERM REVENUE FORECASTS

**1966 Actual Allocations (Base)**

<table>
<thead>
<tr>
<th>Traffic</th>
<th>Revenue</th>
<th>Allocated</th>
<th>Margin</th>
</tr>
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<td>31</td>
</tr>
<tr>
<td>Principal</td>
<td>26</td>
<td>21</td>
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<tr>
<td>Secondary</td>
<td>28</td>
<td>38</td>
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</tr>
<tr>
<td>Stopping</td>
<td>43</td>
<td>31</td>
<td>12</td>
</tr>
<tr>
<td>London Suburban</td>
<td>9</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Other Suburban</td>
<td>180</td>
<td>145</td>
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<tr>
<td><strong>Coaching Traffic</strong></td>
<td>37</td>
<td>33</td>
<td>4</td>
</tr>
<tr>
<td>B.R. Parcels</td>
<td>21</td>
<td>10</td>
<td>11</td>
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<tr>
<td>G.P.O. Mails</td>
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<td>15</td>
</tr>
<tr>
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<td>3</td>
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<tr>
<td>Iron &amp; Steel</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Oil - Train Load</td>
<td>11</td>
<td>6</td>
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<tr>
<td>Other - Train load</td>
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<td>217</td>
<td>196</td>
<td>21</td>
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<tr>
<td><strong>TOTAL DIRECT EXPENSES/MARGIN</strong></td>
<td>464</td>
<td>388</td>
<td>76</td>
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**1969 Provisional Estimates**

<table>
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<td>35</td>
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<tr>
<td>Principal</td>
<td>23</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Secondary</td>
<td>23</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Stopping</td>
<td>44</td>
<td>32</td>
<td>12</td>
</tr>
<tr>
<td>London Suburban</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Other Suburban</td>
<td>176</td>
<td>126</td>
<td>50</td>
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<tr>
<td><strong>Coaching Traffic</strong></td>
<td>37</td>
<td>32</td>
<td>5</td>
</tr>
<tr>
<td>B.R. Parcels</td>
<td>23</td>
<td>11</td>
<td>12</td>
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<tr>
<td>G.P.O. Mails</td>
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<td>17</td>
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<tr>
<td><strong>Freight</strong></td>
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<td>Coal</td>
<td>39</td>
<td>31</td>
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<tr>
<td>Iron &amp; Steel</td>
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<td>3</td>
<td>3</td>
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<td>Oil - Train Load</td>
<td>13</td>
<td>6</td>
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<tr>
<td>Other - Train load</td>
<td>6</td>
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<td>4</td>
</tr>
<tr>
<td>Wagon load</td>
<td>9</td>
<td>5</td>
<td>4</td>
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<td><strong>Miscellaneous Receipts and Expenditure</strong></td>
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<td>139</td>
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<td><strong>TOTAL DIRECT EXPENSES/MARGIN</strong></td>
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<td>313</td>
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**1974 Provisional Estimates**

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</tr>
<tr>
<td>Stopping</td>
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<td>36</td>
<td>11</td>
</tr>
<tr>
<td>London Suburban</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Other Suburban</td>
<td>189</td>
<td>128</td>
<td>61</td>
</tr>
<tr>
<td><strong>Coaching Traffic</strong></td>
<td>31</td>
<td>27</td>
<td>4</td>
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<tr>
<td>B.R. Parcels</td>
<td>24</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>G.P.O. Mails</td>
<td>55</td>
<td>39</td>
<td>16</td>
</tr>
<tr>
<td><strong>Freight</strong></td>
<td>65</td>
<td>40</td>
<td>25</td>
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<tr>
<td>Coal</td>
<td>27</td>
<td>19</td>
<td>8</td>
</tr>
<tr>
<td>Iron &amp; Steel</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Oil - Train Load</td>
<td>19</td>
<td>9</td>
<td>10</td>
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<tr>
<td>Other - Train load</td>
<td>21</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Wagon load</td>
<td>29</td>
<td>11</td>
<td>18</td>
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<tr>
<td><strong>Miscellaneous Receipts and Expenditure</strong></td>
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<td>107</td>
<td>70</td>
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<tr>
<td><strong>TOTAL DIRECT EXPENSES/MARGIN</strong></td>
<td>429</td>
<td>278</td>
<td>151</td>
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### INDIRECT EXPENSES

- **Track & Signalling**
  - 105
- **Administration**
  - 42
- **General Expenses**
  - 7

<table>
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<th>Adjustment to allow for:</th>
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<th>Margin</th>
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<td>(a) wage increases in 1967 and 1968 in excess of 'norm'</td>
<td>- -</td>
<td>- 10</td>
<td>-</td>
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<tr>
<td>(b) delay in displacement of surplus staff</td>
<td>- -</td>
<td>- 5</td>
<td>-</td>
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<tr>
<td><strong>Miscellaneous Receipts and Expenditure</strong></td>
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<td>542</td>
<td>76</td>
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<tr>
<td><strong>TOTAL REVENUE/EXPENSES/MARGIN</strong></td>
<td>470</td>
<td>542</td>
<td>72</td>
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</table>

### Notes:

1. The expenditure shown here is that relating to Miscellaneous Receipts which have not been covered already in the estimates given for the individual traffics above.
2. The estimates given above are subject to the qualifications outlined in the attached Memorandum.

17th May, 1967
APPENDIX F

COMPOSITION OF JOINT STEERING GROUP

CHAIRMAN: John Morris, MP.
Joint Parliamentary Secretary,
Ministry of Transport.

MEMBERS: J. P. Berkin, C.B.E.
formerly Managing Director,
Shell Petroleum Company Limited.

J. G. Cuckney,
Managing Director,
Standard Industrial Group

D. O. Henley,
Assistant Under Secretary of State,
Public Finance,
Department of Economic Affairs.

J. J. B. Hunt,
Under Secretary, Public Enterprises,
H.M. Treasury.

† P. G. James,
Member, British Railways Board.

* F. C. Margetts, C.B.E.
Member, British Railways Board.

Professor A. J. Merrett,
Professor of Finance,
London Graduate School of
Business Studies.

C. P. Scott-Malden, C.B.
Under Secretary, Railways Group,
Ministry of Transport.

P. H. Shirley,
Vice-Chairman,
British Railways Board.
G. C. Wardale,
Under Secretary, Finance Group,
Ministry of Transport.

J. W. Wardle, J.P.
Running Movements Supervisor,
British Rail Diesel Depot,
Tyseley,
Birmingham.

*H. C. Johnson, C.B.E.
Vice-Chairman,
British Railways Board.
Has attended J.S.G. meetings from
2nd May, 1967, vice Mr. Margetts.

W. I. Winchester,
Chief Officer (Financial Research),
British Railways Board.
Deputised for Mr. James during the
latter's absence, (8th April, 1967,
to 8th May, 1967).

JOINT EXECUTIVE
DIRECTORS: J. R. Hammond, M.B.E.
British Railways Board.

P. E. Lazarus,
Ministry of Transport.

SECRETARY: D. E. Barlow,
Ministry of Transport.
Section 1. Introduction
1.1 The White Paper on Transport Policy (Cmnd. 3057 of July 1966) records the Government's conclusion that for the foreseeable future there would be a need, as part of the country's transport system, for a substantial railway network. The social and other considerations which led to the decision to stabilise the rail network also made it necessary to devise a new financial framework for the railways. Accordingly the Minister of Transport and the Chairman of the Railways Board set up a Joint Steering Group to review certain aspects of the railway industry.

The full terms of reference for this Joint Review are reproduced as Annex B.

The Members of the Joint Steering Group are listed in Annex C.

1.2 To assist with our work we appointed two separate firms of consultants, viz., Messrs. Cooper Brothers and Company and Messrs. P-E Consulting Group Limited, to whom we gave the remits set out in Annex D. As a first step we asked Cooper Brothers to examine

(a) the costing methods at present employed by British Railways, and
(b) the methods by which any subsidies for unremunerative passenger services should be calculated, controlled and paid.

Later they were to look
(c) at the Board's financial and budgetary control procedures, and their management information systems.

We asked P-E initially
(a) to examine sample loss-making passenger services, and to assess what changes in service operating practices and fare structures might lead to an improvement in financial results;
(b)
(b) to consider how this kind of examination might best be applied to loss-making services generally, and
(c) to look at the Board's methods and policies for marketing both for freight and passenger services.

1.3 P-E have made useful progress with this work, but we have now decided to hand over all the consultancy work to Cooper Brothers who will complete the remits originally assigned to P-E. As a final stage, Cooper Brothers will be asked
(a) to advise on any proposals by the Board on management structure and to make recommendations,
(b) to recommend the procedures to be adopted for forecasting the future income and expenditure of British Railways.

1.4 Our terms of reference made mention of the continuing obligations deriving from the past which rest on the Board, including those in respect of road bridges and level crossings, of superannuation and pensions for past and present employees, and of the British Transport Police Force. We concluded that it would be best to have these and other similar obligations examined, in the first place, by Joint Teams of officers from the Ministry, the Board, and in some cases the other Departments concerned. These Teams were set up immediately after the Joint Steering Group began their work.

1.5 We have met eight times as a full Group, and in addition there have been a number of meetings of selected members on specific subjects.

Section 2. Summary Progress Report

2.1 It has always been envisaged that it would take us at least a year to complete the work allotted to us. We think it would be appropriate to draw attention to the fact that British Railways is a very large complex of businesses employing today over 340,000 people and that because of this, and of the relatively short time that has so far been available to us, it has not been possible for us to assimilate and report at the present time on the full ramifications of the problems involved.
We were, however, asked to provide an Interim Report, by the end of 1966, which would in particular give the Minister and the Chairman as much as possible of the information needed for determining the legislative changes to be included in the forthcoming Transport Bill.

2.2 We have therefore devoted most of our attention to this part of our task, and Section 3 of this Report gives our main recommendations on the principles to be adopted for calculating, paying and controlling subsidies for unremunerative passenger services. This has involved us in a consideration of the costing methods at present employed, since on these will depend the calculation of subsidies. As indicated in Part 1 of Annex A, we are satisfied that the costing principles and methods at present used by the Railways, although open to improvement in a number of respects, are generally sound and certainly on an interim basis adequate for calculating the subsidies required. We have also thought it right to give some attention to the various possible methods of reducing and controlling costs and increasing revenue on subsidised services. These are described in Part II of Annex A.

2.3 Paragraph 23 of the White Paper says that the Board's essential task will be to operate economically and efficiently on the new basis which provides for realistic financial objectives, and to move as soon as possible to a position of financial equilibrium.

2.4 One factor towards achieving the equilibrium will be the arrangements made for dealing with the losses on unremunerative passenger services retained on broad social and economic grounds, on which the Consultants are particularly engaged (Part II Annex A).

2.5 Another factor will be the treatment of the cost of standby capacity which is specifically mentioned in our terms of reference. We set up a Committee of the Group to study this complicated question but their work is not yet completed. (Part III Annex A)

2.6 We have also to take into account the effect of any proposals we may develop regarding other burdens on the Railways which we asked various Joint Teams to investigate. Reports on progress to date are in Part IV of Annex A, and are summarised below:
2.6.1 Road Bridges and Level Crossings

Although we had hoped, as a result of an early report by the Team, that it would be possible to open negotiations with the local authority associations to transfer public overline bridges to County Councils and County Borough Councils, we have become concerned about the possible implications for the safety of railway operations and the Team have been asked to consider this further. In any case we doubt whether, at least for the time being, the negotiations could include level crossings.

2.6.2 Pensions

This is an extremely complicated problem and very substantial sums of money are involved. The working party has examined the problems involved and their implications and the Steering Group consider that solution must wait until we can see the likely financial prospects of the Board and consider the capital burdens which it will be sensible to place upon the railways.

2.6.3 Museums and Historical Records

Both should be transferred to the Department of Education and Science, and housed together on one site to be provided by the Railways Board if this can be done without financial loss.

2.6.4 Railway Savings Banks

They should be kept in being, and steps should be taken to increase the membership. For this purpose the interest rate should be raised.

When the National Freight Organisation is set up, Bank membership should be extended to staff of that organisation.

2.6.5 Transport Police

We are still continuing our study of whether this force provides assistance for the civil police to an extent sufficient to justify a specific subsidy.

2.7 Cooper Brothers cannot yet make any estimate of the likely total size of grants for social services. (This phrase is intended to cover grants for unremunerative passenger services retained on broad social and economic grounds. For convenience these grants are referred to as subsidies in this report.)
Until such an estimate is available, and we have decided whether to recommend a grant in respect of standby capacity (Paragraph 2.5) and of the other financial burdens on the Railways (Paragraph 2.6), we cannot gauge how large the gap will be between the Board's revenue and their remaining costs. We discuss this further in Section 4.

2.8 We have not yet made sufficient progress to be able to report on management structure, which in any case is partly dependent on Ministerial decisions about the National Freight Organisation. It is one of a number of matters on which we hope to have Union views early in the New Year. Similarly we have not yet begun our assessment of the Board's investment programmes and the criteria for investment appraisal. Cooper Brothers have made certain preliminary recommendations about financial and budgetary control procedures, and the structure and role of the Board's Headquarters Finance organisation, and the more important are listed, necessarily briefly, in Part V of Annex A.

2.9 We need only add that our aim has been to provide the gist of our recommendations as shortly as possible and in the most readable form. All our detailed papers and the reports from the Consultants are already available both in the Ministry and in the Board. In this Interim Report, therefore, we have confined ourselves to a statement of our main findings and recommendations to date, with the minimum of supporting material.

Section 3. Methods of Calculating, Paying and Controlling Subsidies for Unremunerative Passenger Services

3.1 We interpret the White Paper to mean that a subsidy ought to be payable wherever the Minister on broad social and economic grounds decides to retain a particular passenger service, the revenue reasonably attainable from which, falls short of the properly attributable costs.

3.2 The White Paper also refers in paragraph 27 to the possibility that local authorities might assume some, at any rate, of the financial responsibility for such passenger services. We know that this is under consideration in the Ministry, but for the purposes of this interim Report...
Interim Report we have concentrated on the principles and methods to be adopted where the subsidies are paid by the Minister of Transport. This does not imply that similar principles should not be adopted where the subsidies are to be paid by local or other authorities.  

3.3 We recommend that subsidies should be based on an assessment of net losses likely to be incurred over a future period of time, rather than on the basis of payment in arrears in respect of actual losses incurred. We make this recommendation because we believe that this will present a considerable inducement to the Railways to run their subsidised services as efficiently as possible so as to reduce actual losses. Furthermore if subsidies are paid on an estimated loss, this will considerably reduce the need for audited accounts of each service and the possibility of dispute about detailed figures. It should be possible to satisfy Parliament that this would be an acceptable substitute for payment on audited actual results, bearing in mind the incentive it offers to the Board to reduce losses on the subsidised services.  

3.4 We have concluded that once a subsidy has been agreed in principle, it should, as far as possible, cover all the costs which the Board incur in respect of that service (including some part of joint costs) and which they are not able to recover from the receipts from the service.  

3.5 We recommend that terminal and track and signalling costs incurred on facilities used only by subsidised passenger services should be charged to those services.  

3.6 We refer in paragraph 3 of Annex A to the further research which is to be undertaken to determine how costs vary with the volume of traffic. This will inevitably be a lengthy process but will help us to see how far, in respect of any of these unremunerative passenger services, there are true "joint costs", (defined by Cooper Brothers as those associated with the situation where the production of one product enables the production of another to take place at no extra cost) (Annex A Part I Para. 2). Costs which vary with output should certainly rank for subsidy. It is arguable that true joint costs should remain the responsibility of the Board but we do not accept this view because it would mean that, in practice, the Board's remunerative services would...
have to carry the full joint costs and thus cross-subsidise the unremunerative. Pending the completion of our studies into joint costs and the development of a more precise formula for calculating subsidies for individual passenger services, we intend to prepare total figures as a basis for examining the Board's general financial prospects. For this purpose we propose to treat all costs (other than administration) as fully variable and apportion them to the services concerned on the basis used by the Board for passenger profitability studies.

3.7 As regards general administration costs, we recommend that it would be appropriate to allocate to the subsidised services a proportion of those costs that are properly attributable to passenger traffic.

3.8 We recommend that the subsidy payable should include depreciation, and we further recommend that this should be assessed on a replacement cost basis, and not on historic costs. We also recommend that subsidies should include an allowance, on a basis which we hope to determine in a later report, for the appropriate interest charge on the assets used in providing these unremunerative passenger services.

3.9 We agree with the Cooper Brothers' recommendation that it would be inappropriate, in calculating subsidies, to take any account of contributory revenue although, in deciding whether a service should be retained, and subsidised, both the Board and the Ministry will no doubt have to take into account the amount of contributory revenue that may be at risk. Contributory revenue is the off-service revenue of journeys partly on and partly off a service.

3.10 We regard it as important that the principles to be adopted for the calculation of subsidies should be consistent with those adopted generally for costing within the railways, as otherwise any arrangement would be open to misunderstandings and criticism. It does not follow that the financial accounts should accord in all respects with the costing formulae; in particular, depreciation will be charged for accounting purposes on the basis of historic costs.

3.11 We recommend that three years should normally be the period for which subsidies should be fixed in advance. If the period is kept to three years, this will be long enough to provide an incentive, and short enough for...
it not normally to be necessary to include any provision for review of individual cases during that period. If costs rise above those ruling at the time when the subsidy was fixed, then the Board will have to cope with these, and should not be able to ask for any increase in subsidy until the termination of the three year period except in the circumstances described in 3.14 and 3.15. The dates for review of subsidies for particular services should be staggered to ease the administrative burden of assessment and review, and in order to set up this arrangement initial subsidies may have to be paid for shorter periods than three years in a proportion of cases.

3.12 Requests for subsidies should be submitted service by service, by the Board. In each case the Board should submit to the Ministry sufficient details (see Part II of Annex A) to show that the services are being operated efficiently and that all means of reducing costs, while providing an adequate standard of service, have been fully explored. They should also give whatever information they have of the demand for those services, and the extent to which this demand will be met by the proposed service to enable the Minister to decide, in the light of all other relevant considerations, on the merits of the case for subsidy on broad social and economic grounds. Where there is a major traffic reorganisation in contemplation, in conurbations for example, additional information may need to be sought.

3.13 We recommend that in addition to careful scrutiny of the Board's submissions, the Ministry should select for detailed review a sample from the cases submitted to them. This review should not include a check of the calculations, but this would be done in a proportion of cases by an independent accountant who might be the Board's auditors.

3.14 We recognise that for very large services, particularly in conurbations, it may be necessary to provide for a review if circumstances change significantly during the three year period.

3.15 The Minister must have control over the frequency and standard of service, and the maximum fares, on any subsidised service. The Board should be entitled to ask for a review of the subsidy if there is an increase
an increase in the deficit on any service as a direct result of the exercise of the Minister's control.

3.16 Furthermore, because any capital investment on such a service will affect the future level of subsidy, the Board should be required to refer to the Ministry for specific approval any proposed capital expenditure over a stated amount, including any renewals, which is made in respect, or in partial respect, of a subsidised service. If a subsidised service is withdrawn before the fixed assets have been fully depreciated, then the Board will make a capital loss, and we are considering how this should be met (e.g. by writing off the unexpired balance against capital account).

3.17 Subsidies should be paid by the Ministry to the Board at 4-weekly intervals. These sums should be calculated as being 1/13th part of the annual agreed amount for each service. Where the period fixed for a subsidy has come to an end, and a decision has not yet been taken by the Ministry as to whether the subsidy should be renewed, at the same or any different level, then pending such an agreement the subsidy should continue to be paid, at the previous level, with any necessary retrospective adjustment when the new subsidy is agreed.

3.18 The Board should be required to give the overall estimated financial results, in respect of subsidised passenger services, in their Annual Report. The time that would be required to ascertain these figures would probably make it impossible to include audited figures in the Accounts.

3.19 We think it reasonable that the Ministry should be supplied with figures, at agreed intervals, in respect of each subsidised service, to show the extent to which the service is being used. These figures would not relate to the financial results, but could take the form, for example, of passenger counts.

3.20 Once the Board has reached its target of financial equilibrium, a general review of the financial provisions dealt with in this section will be necessary.

3.21 We suggest that as far as possible the legislative provisions should be widely drawn. The essentials are:

(a) that the Minister should have power, in respect of individual unremunerative services /1/
(i) to decide that they should be continued on broad social and economic grounds,
(ii) to agree with the Board the level of service to be provided,
(iii) to decide on the level of subsidy to be paid for a period of up to three years ahead,
(iv) to call for information about the extent to which such services are in fact being used.
(b) that the Board, in addition to supplying the details mentioned in paragraph 3.18, should be under an obligation to refer any proposals for major capital expenditure in respect of any such service to the Minister.

3.22 All the above recommendations relate to legislative proposals. In the meantime, and as soon as possible, we recommend that calculations on the basis set out in paragraph 3.3 should be carried out, that the Ministry should reach decisions on individual services as though subsidies were to be paid, and the amounts concerned should be noted in the Annual Reports, in order that the extent to which the Board's deficit relates to services which, for the future, will be specifically subsidised by the Ministry can be readily seen.

3.23 There remain certain other questions arising out of service withdrawals, which we have still to consider. The main one is how to cover the subventions to operators of bus services provided as a condition of the withdrawal of rail services.

Section 4. Financial Prospects

4.1 One of the most important tasks implicit in our terms of reference is to review the financial prospects of the Board in the light of current developments and the new policies indicated in the White Paper.

4.2 The Board estimate that their 1966 revenue deficit, as viewed through their statutory accounts, will be of the order of £132 million. We accept that a part of this results from the present national economic situation, particularly as it affects the heavy industries, and but for this the Board are confident that they could by now have achieved a further reduction in the deficit. But it is useful to quote the present
figure in order to show the scale of the problem.
It has not yet been possible to assess the
reduction in future deficits which will be brought
about by Exchequer grants or by payment by other
authorities in respect of specific loss making
passenger services. There may also be a case for
other grants, e.g. for standby capacity. But it is
clear that there will still be a gap - possibly a
large gap - between the total of the Board's
revenue, including these various subsidies, and
their total costs. It seems prudent at this early
stage to draw attention to the existence of this
gap, and the need for some overall assessment of the
earning capacity of the Board's assets.

4.3 It should also be borne in mind that the Board's
capital investment is continuing at the rate of over
£100 million a year. It is true that much of this is
provided out of current depreciation provisions and
the sale of surplus assets and to this extent does
not add to the Board's interest burden. But this
continuing necessary investment is a factor which
adds to the importance of assessing the profitability
of the railway activity rather than the reverse.

4.4 The aim should be to attempt to view the whole
of the Board's business as it will be in future years
in the light of the Government's policies, taking
account of future increases in efficiency, including
those which should result from the present Review.
We are still considering how best to make a realistic
assessment of the Board's future earning capacity
in order to be able to report fully on this in our
main report. Whilst we have not yet decided on
detailed methods it seems likely that the review must
start from an appraisal of the Board's major trunk
flows over the system as a whole, product by product.
This should not be beyond the combined resources of
the Board, the Ministry and Cooper Brothers.

4.5 We shall also be considering whether any regional
studies could usefully be undertaken in particular,
in relation to our examination of standby capacity.

4.6 Other studies which we are putting in hand and
which are relevant relate to the potential revenues to
be obtained from train load traffics and to the
viability of part of the wagon load traffic. The
results of all these studies should be available in time to assist in determining what provisions should be included in the Transport Bill about any residual deficit grant powers and about the Board's capital structure.

Section 5 Main Report

5.1 We intend to submit our main report during the course of the summer.

Signed on behalf of the Joint Steering Group

JOHN MORRIS
Chairman

D. E. BARLOW
Secretary

10th January, 1967.
Part I. Costing Principles and Methods

1. We have had the benefit of a very full report from Cooper Brothers, which covers the whole of the ground in great detail. We have not yet been able to give it all the study which it needs, and, as set out below, in one important respect further research is needed before final conclusions can be reached. But whilst they suggest that certain changes are desirable, their overall conclusion is that the present costing principles and the ways in which they are applied are generally sound and that, at least on an interim basis, the methods now used to calculate movement costs for passenger profitability studies would be appropriate for subsidy purposes.

2. The difficulties of railway costing arise mainly from joint costs (defined by Cooper Brothers as those associated with the situation where the production of one product enables the production of another to take place at no extra cost) and fixed costs (those which do not vary with changes in the quantity produced). In recognition of this problem, British Railways have divided their operating costs into two categories:
   (a) Direct costs - which are considered to be both variable and specific (that is they can be attributed directly to the traffic conveyed);
   (b) Indirect costs (track and signalling and general administration) - which are normally treated as being both fixed and joint.

3. We agree with Cooper Brothers that it is necessary, if the classification of costs is to be improved, that costing research should be undertaken to determine:
   (a) how, and on what time scale, costs vary with changes in either the volume of traffic or other measures of railway output;
   (b) what factors, other than output, affect the level of cost of each activity.
It will be particularly important to ascertain how far costs vary from the average. In looking at this costing information we shall also need to consider how far the various presentations of costs meet the needs of managers who have to use these figures.

4. Cooper Brothers have recommended that interest should not be treated as a cost, but should be recovered as part of a "profit contribution". We accept that the present method of assessing interest, which involves allocating to certain assets the sum actually paid by the Board in interest at the present, is unsatisfactory. We also accept that it should be distinguished from other costs. But we do not think that it is appropriate to think in terms of a profit contribution for an industry which is not intended to make profits, and which has such a long way to go before it can achieve equilibrium. It will certainly continue to be financed through fixed interest capital and not equity shares. In these circumstances, we think that interest should be charged at a current rate, and that as far as possible it should be assigned to specific items needed for particular operations.

5. Furthermore, we think that depreciation, for costing and subsidy purposes, should continue to be assessed on a replacement cost basis, and not on historic costs. This seems essential if the full cost of operations is to be taken into account, and if those assets of the railways which are to be retained are to be kept in good order in perpetuity.

6. The present accounting and information systems do not provide the information required for costing purposes, and it is necessary for the Traffic Costing Service to ascertain costs either by analysis of the overall working results or by ad hoc studies. Both methods have considerable disadvantages, which would be largely avoided if the budgets could be used for costing purposes to the maximum extent possible. Cooper Brothers believe that it should increasingly be possible to calculate from the budgets the total and
unit costs for individual locations and track sections, distinguishing between short-term variable and long-term costs. We are agreed that they should be asked to explore this in detail.
Part II. Methods for Minimising the Net Deficit on Unremunerative Passenger Services

7. P-E Consulting Group have carried out a review of a number of the services which are currently running at a loss, and for which closure has been refused by the Minister, or her predecessors. Their main objectives were to consider possibilities for reducing costs (e.g. by reducing the amount of track, using conductor guards on trains, simplifying of protection arrangements at level crossings, etc.) and also for increasing revenue (e.g. by adjustments of fare levels and by providing the service best suited to the needs of the travelling public, having due regard to economy.)

8. The work done so far by P-E shows that, in respect of five services, all of which are largely rural in type, the loss at the time when closure was refused could be substantially reduced. Much of this reduction is attributable to steps which have either been taken, or are currently being planned, by British Railways, but the Consultants made further suggestions which are now being considered by the Board. Not all of these, of course, may be feasible.

9. The most immediate task which is now being pursued by the Consultants is the preparation of a form of questionnaire, all or part of which, depending on circumstances, would need to be completed by the British Railways Board before an application for subsidy is made and which could then serve as the actual application form for such a subsidy. Apart from details of the current service and patronage, this form would include whatever information was readily available on potential demand and any proposed alteration in service. Under standard headings relating to means for increasing revenue or reducing cost the Board would indicate that consideration had been given to all practicable means of reducing net loss and would estimate the financial result achievable during the subsidy period. We have
still to consider whether this form, which would involve the Board in a certain amount of discussion with local authorities and Government Departments, would provide sufficient information about social need, or whether further specific enquiries may be necessary in some cases. We have also still to consider what part should be played in the consideration of these applications by bodies such as the Transport Users Consultative Committees.

10. Further assessments are now being carried out by the Consultants, primarily in order to check their proposals for the drawing up of such a questionnaire, and also to enable them to see how far their procedures are appropriate for the more densely used services in conurbations. We have asked them to give particular attention to the identification of those factors which affect costs and revenue, and an evaluation of the extent to which these costs may be variable in different circumstances.

11. One immediate recommendation, which results from the work by Consultants, and which we think should be brought to your early attention concerns services which are currently proposed for closure. At present, the British Railways Board feel themselves inhibited, once a proposal for closure has been published, under Section 56 of the 1962 Act, from making any changes which alter the character of a service even although considerable savings in cost may be possible. (It is important to bear in mind that the publication of proposals has a major impact on public opinion and there is a real danger that, if discussions are protracted, existing and potential customers may be irretrievably lost). We recommend the Minister and the Chairman to consider whether the Board should submit specific proposals to the Ministry in those cases where sensible changes can be made which would substantially reduce costs. The Minister would then have to take a decision in the light of an assessment of likely public reaction.

/PART III.
PART III. Standby Capacity

12. This concept is specifically included in our terms of reference, and we have set up a special Committee to study it in detail. We are agreed that we are concerned only with standby capacity in infrastructure (i.e., formation, track and signalling, etc.) and not with any standby in terminals, depots or wagons and carriages. We are also agreed that the real question is how far, if at all, will the proposed future railway network, as now broadly agreed between the Minister and the Chairman of the Board, contain "standby" capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, and this seems to the Group a most important point to emphasise, we are looking for surplus which is additional to that which any transport undertaking needs for sound commercial reasons (e.g. to cope with predictable peaks or to assist operational efficiency). We are also aiming to identify the nature of such surplus, why it exists, and, if any part of it is likely to persist, the reasons why.

13. The Committee has not yet reached any firm conclusions, and there is little that we can report in the interim. But the subject must be mentioned at this time, since it could, inter alia, have a bearing on the social subsidies in certain circumstances, (if, for example, a part of track costs were covered by a grant for standby and the loss on the subsidised service thereby reduced).

14. In their report on costing, Cooper Brothers recommend that in order to calculate unit costs for a location, the actual costs for a period should be divided not by the actual volume of output likely to be achieved during that period but by what they call "the normal" volume of output i.e., the reasonable output which could be achieved on a regular basis in that location if the traffic were available. (This, according to the recommendation, would not apply to track and signalling, where the expected level of output should be used). To the extent that the costs which might be recovered on that basis would be less than the actual costs, because the traffic flowing was less than the potential traffic /which
which could flow without further cost, this would be attributable to the surplus capacity inherent in that location and the accounts would show the size of the surplus. This and other possible alternative approaches to the cost of the surplus in the infrastructure and its relevance to the "standby" question will require further exploration.
PART IV. Other Obligations deriving from the past

15. We have already said that Joint Teams were set up to look at the various obligations, deriving from the past, which rest on the Board at present.

Road Bridges and Level Crossings

16. The total cost of overline bridges in 1965 was £1,506,000, of which some £900,000 was to revenue account, and therefore an addition to the deficit. For the 2½ years up to 1960, the Ministry had agreed to pay the Railways some £2m. per year towards the cost of road bridges and level crossings, because of the extent to which this had been inflated by the growth in road traffic. The payment was stopped in 1960, because it was thought administratively more convenient to deal with this through the revenue deficit. In addition to the above figures the Board pay £40,000 per annum to the Ministry in respect of their relief from liability for the trunk road bridges which were transferred to the Minister in 1966. They also have to find about £327,000 per annum for the road surfaces of bridges.

As regards protected level crossings over public roads, of which there are some 2,800 at present, their total cost in 1965 was just under £1½m.

17. The present statutory framework of responsibility for bridges and level crossings is obviously complicated and unsatisfactory. The main disadvantages are that there is a lack of clearly defined obligations, great administrative complexity, failure to reach satisfactory standards of provision, and administrative difficulties which often prevent the removal of bridges which are no longer necessary. In these circumstances the Joint Team recommended that there would be much to be said for the transfer of responsibility for public overline bridges to County Councils and County Borough Councils.

18. The Team thought, however, that, at least for the time being, there should be no attempt to transfer any part of the responsibility for level crossings. The rise in costs is mainly due to the increase in railway wages.
not to an increase in road traffic, and local authorities would have no effective control over the level of costs. Furthermore the legal provisions governing the powers of local authorities to contribute to modernisation costs are extremely complex, and negotiations would be extremely difficult.

19. Whilst in principle we agree with the recommendation that it would be more appropriate for the costs of public overline bridges to be borne by local authorities, there are considerable difficulties about a complete transfer of responsibility for these bridges. In particular there must be some doubt whether local authorities would be able to maintain sufficiently high inspection standards, and there would be difficulties about arranging for inspection, and work, to be done with safety for railway operations and for local authority personnel. We do not think that these practical difficulties have yet been sufficiently explored, and we have asked the Team to give further consideration to them.

20. **Pensions**

The problems in this field are more difficult. The main questions to resolve are whether, and if so how far, the Board should be relieved of superannuation and pension liabilities relating to staff previously employed on social or abandoned lines, and its obligations which result from decisions of the Board's predecessors. There is also the problem of the interest burden on superannuation and pension fund deposits and provisions which are no longer represented by any viable assets. We realise that in facing these issues we are asking whether the Board should, in effect, be regarded as a new body, starting afresh from a current date, with only the liabilities that they choose to impose on themselves for the future, or whether it is right that they should be saddled with some part at least of the legacy of the past.

21. If the arguments for releasing the Board from its obligation should be accepted in full this might represent a sum of the order of £15m. to £20m. per year. To relieve the Board of a sum of this size would, however, be /a most
a most unfortunate precedent for other industries in a similar position.

22. We have decided that this is an issue which we cannot tackle on its own, and that we shall have to defer any positive recommendation to you until we can see the likely financial prospects for the Board as a whole.

23. **Museums and Historical Records**

   We are satisfied that the Transport Museums have a useful scientific, educational and cultural role to play. The Joint Team think that the greater part of the exhibits in them should be preserved, and we consider that provision for the future of such exhibits as are preserved should be such as to assure their continuing development.

24. The Department of Education and Science would be willing to assume responsibility for the Transport Museums (which they would administer as satellites of the Science Museum) if the early rehousing of the Clapham exhibits in more suitable premises could be assured. There may be difficulty in finding a new more suitable site, and no final decision can be taken until a site has been found, and the costs evaluated. Furthermore, at that stage, it will be necessary to consider whether the Department of Education and Science are prepared to continue the present B.R. policy of charging for entrance, as any change in this would have a material effect on the cost of the proposed transfer. But in principle we are agreed that a transfer to that Department would be sensible, that a move from Clapham is in any case desirable, and we would hope that the sale by the Board of the Clapham site would provide them with sufficient funds to enable them to provide better accommodation for the transport collections before handing over responsibility for them to the Department of Education and Science.

25. As regards the Historical Records, we are satisfied that they are of no value to the Board in running their business, but we accept that the bulk of them merit preservation on grounds of general educational usefulness.
and as illustrating an aspect of social history. We think there may be some scope for reduction in the amount spent on preserving the records, by centralising the English records in one building, but we accept that they are not suitable for inclusion in the Public Record Office.

26. If the Department of Education and Science take over the museums, then we recommend that the opportunity should be taken to house the records on the same site as the transport exhibits. We think there would be much to be said for this on educational, administrative and financial grounds, and this would be acceptable to the Department of Education and Science.

27. The British Railways Board are now, as a matter of urgency, looking for a possible new site for the museums and historical records.

Railway Savings Banks

28. As a first step, we have looked at the trend of deposits over recent years. Deposits fell by £2.9m. from 1963 to 1965. They fell by a further £2.7m. in the first six months of 1966 to £37.3m. For the whole period 1959 to 1965 withdrawals exceeded new deposits to the extent of £16m. After crediting interest totalling £15m. the fall in total deposits amounts to a little over £3m.

29. The team's researches show that the costs of administration would not diminish in proportion to the reduction in the total amount of deposits. Equally administrative costs would not be affected to any major extent by an increase of the order of 15 to 20% in the number of accounts deposited, and now that much of the calculation is done by computer, computer costs would not be materially affected by an increase of up to 40%.

30. These circumstances provide strong arguments why the Railways should try to increase the present size of deposits. Furthermore, and of equal importance, they are a source of relatively cheap capital for the Railways as well as an incentive to savings amongst railway staff.
31. In these circumstances we recommend:

(1) That the existing basis of operation of the Railways Savings Banks is left basically unchanged.

(2) That positive steps be taken by the Board to encourage an increase in membership of the Banks and of the extended use of payroll deductions as a regular means of savings.

(3) That the interest rate payable on deposits should be adjusted to bring the bank into line with other comparable banks.

(4) That in addition to Railways Board employees, employees of a National Freight Organisation should in future be eligible as depositors in an enlarged "Transport" Savings Bank.

Transport Police

32. It appears that the services of the Transport Police may be regarded as falling into three distinguishable (but not exclusive) categories:

(a) The protection of property in which are included the safeguarding of the premises and property of the Board, and of goods in transit and the property of travellers. This is clearly the sole responsibility of the Board.

(b) The detection of crimes, which is mainly a function of the Criminal Investigation Department (CID).

(c) General public services, such as the control of traffic in the vicinity of main railway stations, the marshalling of crowds, general help to members of the public and the maintenance of public order.

33. The Railways Board have claimed that some element of grant for both (b) and (c) above would be justified. They have emphasised that nearly 20% of the Transport Police are in the CID and without them crimes on the railways would merely be reported to the Civil Police Forces for investigation by them. The Transport Police CID thus

/provide
provide relief for the Civil Police Forces, and also render direct assistance, for example, in 1965 by making about 725 arrests. Furthermore they are able to cope better in circumstances where knowledge of transport operations is essential. As regards services for the general public, some 25% of the Transport Police are employed in this field much of which is common with that covered by the Civil Police (e.g. control of immigration).

34. On the other hand, it can be argued that the Railways provide a police force largely for sound commercial reasons, and that their public image, and the cost of losses, would be materially affected by any reduction of their police activities.

35. Our study of this item is still continuing.
Part V. Financial and Budgetary Control Procedures

36. Cooper Brothers have had a preliminary look at the budgeting and management information systems of British Railways, and have given us certain preliminary conclusions, which are sufficiently important to deserve some mention in this Interim Report. It is also right to record their view, with which we entirely agree, that in view of the fact that the present procedures were introduced only three to four years ago great strides have already been made by the Board.

37. Cooper Brothers' preliminary recommendations are as follows:

(i) As far as practicable "responsibility" budgeting should be extended so that individual area and depot managers within a division may be involved in the budgeting process.

(ii) There should be a greater degree of coordination between the:
   (a) budgeted sales in terms of both receipts and volume of activity;
   (b) estimated physical resources required to achieve the expected sales; and
   (c) expenditure budgets which should represent the cost of providing the resources required.

(iii) There should be an analysis of the differences between budgeted and actual results for activities or locations in order to show separately the effects of:
   (a) differences between the actual level of output and that envisaged in the budgets;
   (b) changes which are outside the control of the manager concerned; and over or under spending for which the manager is responsible.

(iv) In order to compare actual expenditure incurred with the expenditure which should have been incurred for the level of output actually achieved, it will be necessary to divide costs between those that may be expected to:

/(a)
(a) vary within the budget period with changes in the level of output;
(b) remain unchanged, at least during the budget period.

If this attempt is made to determine the variable elements of the costs of activities, and if budgeting is extended to individual locations, then it would be possible to make greater use of the budgets for costing purposes.

(v) They entirely support the philosophy underlying the developments in management control information proposed in the Board's overall plan of September 1964. The principle of comparing the value (in terms of standard allowances) of output produced with the cost of the resources used in its production should however be extended to other activities.

(vi) They regard it as important that the control information systems now being planned should be designed to be integrated to the maximum extent possible with the budgetary control system. In turn, this integrated budgetary control/management information system should, as far as possible, be designed to meet the requirements of the traffic costing service and, thereby reduce the need for ad hoc sample studies to ascertain the costs of individual activities.

(vii) Cooper Brothers have finally recommended some strengthening of the Railways Headquarters Finance organisation, and greater central direction.

38. We have not yet been able to take a final view on these recommendations, and indeed over much of the field it would be dangerous for us to attempt to do so before we have a further report from the Consultants. We are ensuring that they, in consultation with the Board.
Board, carry out a detailed investigation of the steps that would be required to carry into effect those of their outline recommendations which we decide to accept, the advantages that this would provide for managerial decision-making, and the cost. We will report further when this work has been carried out. We are also asking them to look at all the variations in procedure between and within regions, and to recommend how far greater uniformity of practice may be desirable.
ANNEX B

Terms of Reference for the Joint Review

1. The Government has reached the conclusion that for the foreseeable future there will be a need, as part of the country's transport system, for a substantial railway network. In order to restore stability to an industry which has been the subject of continual change and uncertainty, and to enable management and staff to concentrate on the development of the system in the interests of the public and of trade and industry, the Government has decided that the basic size of the railway network should be determined now. It will consist primarily of routes linking the main centres of population and of industry and commerce, with additional routes to serve major freight traffic flows and to provide essential passenger services for commuters and others. There are still some lines, services and stations whose retention in modern conditions can no longer be justified, and their future will be decided under the usual procedure as soon as possible to avoid prolonging uncertainty.

2. The Government and the Railways Board are determined that this stabilised rail system shall play a full part in the transport system of the country and do so with rapidly increasing economic efficiency. Capital will be provided for the replacement of rolling stock and the modernisation of traction systems and of track and signalling wherever this can be justified in economic terms. Investment will be concentrated on the main trunk routes carrying heavy flows of traffic, but other feeder and commuter lines will also be adapted to modern needs.

3. The social and other considerations which have led to the decision to stabilise the rail network also make it necessary to substitute a new financial framework for that imposed by the Transport Act, 1962. It has become clear that the requirement contained in the Act for the Board to "pay its way" by the beginning of 1968 is
entirely unrealistic and would, if pursued, force it into action which in many cases would be against the interests of the community and inconsistent with the plans for transport and other services which the Government is developing. It must therefore be amended to provide more realistic and appropriate financial objectives and a new financial framework and discipline.

4. Against this background the Minister of Transport and the Chairman of the Railways Board have agreed to undertake a review of certain aspects of the railway industry. For this purpose they have set up a Joint Steering Group under the chairmanship of the Joint Parliamentary Secretary to the Ministry of Transport.

5. The Joint Steering Group will be assisted by an expert working party, consisting as necessary of independent accountancy and management consultants and including economists from the Ministry’s new Directorate General of Economic Planning and by a number of joint Ministry/Railways Board teams investigating particular subjects. The terms of reference of the review as a whole will be as follows:

(a) To establish an acceptable basis for costing and to identify those categories of services (both passenger and freight) which are not covering costs; to isolate those categories which are potentially viable; to examine the remaining loss-makers and to isolate those with no prospects of becoming viable; and to cost in detail the annual loss on each passenger service which is unlikely ever to become viable so that the Government can decide whether it should be grant-aided on broad social and economic grounds;

(b) to consider any steps in the field of pricing policy or elsewhere which may be necessary to improve the prospects of those services which are already remunerative and those which are potentially viable;

(c)
(c) to examine the Board's methods of costing and financial control in the light particularly of the new proposals for meeting the cost of essential but unremunerative services and of other changes proposed in the White Paper;

(d) to assess whether and, if so, to what extent the cost of the railway infrastructure includes an element of "standby capacity";

(e) to examine the Board's investment programmes and the criteria for investment appraisal;

(f) to examine the continuing obligations deriving from the past which rest on the Board, including those in respect of road bridges and level-crossings, of superannuation and pensions for past and present employees, and of the British Transport Police Force;

(g) to consider the suitability of the Board's management structure and procedures for the future operation of the system in the light of the contents of the White Paper and the changes which may stem therefrom;

(h) to make consequential recommendations, including suggestions for possible legislative changes;

and to report to the Minister of Transport and the Chairman of the Railways Board accordingly.
ANNEX C

COMPOSITION OF JOINT STEERING GROUP

CHAIRMAN: John Morris, M.P.
Joint Parliamentary Secretary,
Ministry of Transport.

MEMBERS:

J. P. Berkin, C.B.E.
Formerly Managing Director,
Shell Petroleum Company Limited

J. G. Cuckney,
Managing Director,
Standard Industrial Group.

P. G. James,
Member, British Railways Board

P. C. Margetts, C.B.E.
Member, British Railways Board.

Professor A. J. Merrett,
Professor of Finance,
London Graduate School of
Business Studies.

P. H. Shirley,
Vice-Chairman,
British Railways Board.

J. W. Wardle, J.P.
Running Movements Supervisor,
British Rail Diesel Depot,
Tyseley,
Birmingham.

C. F. Scott-Malden, C.B.
Under Secretary, Railways Group,
Ministry of Transport.

G. C. Wardale,
Under Secretary, Finance Group.
Ministry of Transport.

D. O. Henley,
Assistant Under Secretary of State,
Public Finance,
Department of Economic Affairs

J. J. B. Hunt,
Under Secretary, Public Enterprises,
H.M. Treasury

JOINT EXECUTIVE DIRECTORS: J. R. Hammond, M.B.E.
British Railways Board

P. E. Lazarus,
Ministry of Transport.

SECRETARY: D. D. Barlow,
Ministry of Transport.
ANNEX D

REMITS GIVEN TO CONSULTANTS

Remit 1
1.1 Review and comment on the acceptability of the principles and procedures now adopted by the British Railways Board for the assessment of the costs and profitability of freight and passenger traffic. Recommend any changes in these principles and procedures which may be desirable.
1.2 Recommend the methods by which the profitability of categories of freight traffic and individual passenger lines and services should be assessed.
1.3 Recommend the methods by which any subsidies for unremunerative passenger services should be calculated, controlled and paid.
1.4 Recommend how, and on what time base, the results of individual loss-making passenger services should be calculated and monitor the preparation of the necessary figures by the Board's staff.

Remit 2
2.1 Consider the results of all loss-making passenger services and recommend any changes, including those in the type and frequency of service, operating practices and fare structure, which would be likely to improve the results of these services in the long run.
2.2 Estimate the effect of the recommended changes on the viability of the services concerned.

Remit 3
3.1 Review the extent to which those freight services likely to be marketed by the Board after the formation of the national freight organisation fulfil the requirements of customers and determine types of traffic and conditions under which additional traffic could be obtained by the Board.

3.2 It has been agreed with the Consultants that, pending further clarification of the role of the national freight organisation, the phrase "those freight services .... after the formation of the national freight organisation" in remits 3.1 and 3.2 means that the Consultants will give priority in their consideration to company train traffic and other bulk traffic that will not be likely to require the provision of road collection and delivery services, by British Railways or British Road Services.
3.2 Review and make recommendations on the methods and organisation of all functions of marketing for passenger and for those freight services which British Railways is likely to be selling after the formation of the national freight organisation, including sales to that organisation.

3.3 Review and make recommendations on the pricing policies for both passenger and freight services.

This review initially to be limited to a study of inter-city passenger services but keeping abreast on the passenger side with the conurbation studies already in progress and on the freight side with the Board's own researches. The Consultants to keep themselves informed as to progress with the national freight organisation.

3.4 Undertake those studies which work has shown to be necessary and which will be authorised by the Steering Group.

Remit 4

4.1 Review and make recommendations on the Board's financial and budgetary control procedures as applied both to revenue account and to investment projects.

4.2 Review and make recommendations on the financial, statistical and other information provided to management for control purposes.

Remit 5

5.1 Recommend the procedures to be adopted for forecasting the future income and expenditure of British Railways and for preparing long-term estimates of the operating results and financial position of the Board.

5.2 Monitor the preparation by the Board's staff of such long-term estimates as the Joint Steering Group may require.

Remit 6

6.1 Advise on any proposals by the Board on management structure.

6.2 Recommend any changes in management structure and responsibilities which work on other remits has shown to be desirable.

* See footnote on previous page.
CABINET

PUBLIC SECTOR PRICES

Memorandum by the Minister of Power

The First Secretary of State in C(67) 137 proposes that there should be some temporary reduction in the gas industry's financial objectives so that it can minimise its price increases.

2. Price increases in the nationalised industries are bound to be more or less embarrassing in the context of prices and incomes policy. On the other hand financial weakness in these industries has implications which may be equally embarrassing if not arrested in time. The treatment of gas and electricity prices illustrates this dilemma.

Electricity price increases

3. In March I proposed that electricity prices should be raised by about 7 per cent in line with a gross return of 11.5 per cent on net assets, as compared with the 12.4 per cent required by the industry's present financial objectives. This would have brought in a balance of revenue, after interest and depreciation of £40 million in reduction of Exchequer borrowing. It was however instead decided, in view of other demands on the Exchequer, that the industry should be asked to raise prices by about 11 per cent in order to achieve the full 12.4 per cent return on capital and so bring in a balance of revenue of about £80 million (PI(67) 10th Meeting). I made it clear at the time that increases of this size were bound to have implications for gas prices. I subsequently announced the decision on 12th May.

Gas industry price increases

4. Last month the gas industry asked my advice on the level of financial performance they should aim at in the next financial year. Without price increases the industry's total balance of revenue after interest and depreciation was expected to be at most £1 million in the current year, to be followed in 1968-69 by a deficit of not less than £7 million. In view of the expected heavy costs to the industry during the transition to natural gas, and as the logical corollary of the decision they had taken on electricity prices I recommended in PI(67) 49 that the industry should be required to aim in 1968-69 at a net return corresponding to the electricity industry's gross return before depreciation of 12.4 per cent. This objective could be expected to lead the Boards to
propose price increases averaging up to 7½ per cent to bring in £32 million. Maintenance of the existing objective would require an increase of 5½ per cent to bring in £23 million but I favour the higher increase both because of the need to equalise competition with electricity (we were committed to progressively aligning the financial objectives of the industries in the White Paper on Fuel Policy (Cmnd. 2790), paragraph 91), and because the odium will be no greater for the marginally higher one than for the lower.

5. The dangers of not strengthening the gas industry's financial position at this moment are serious, and I could not agree that their financial objective should now be lowered to the point of simply breaking even on the assumption that the immense returns forecast from sales of natural gas will all materialise as planned. In the next couple of years the industry will be faced with a heavy marketing operation to expand sales and to achieve the absorption of natural gas at the high rates which we have in mind. The Boards will have to arrange the structure of their tariffs as to offer extremely keen prices to industrial consumers taking natural gas. This will inevitably lead to pressure for concessions on existing contracts while existing gas-making plant is still in use. This pressure will be difficult to resist, and the Boards may be compelled to lose revenue as a result. That would be the worst of all moments (it would be wrong to take account of the possible proximity of a General Election) to have to raise prices. Prices would be much better raised now. I therefore adhere to my proposal that the gas industry should be required to aim at a net return of 6.8 per cent in 1968-69, with the effect that prices would need to be increased by an average of up to 7½ per cent.

6. Of course it can always be said on these occasions that the industry might improve its productivity. There is always room for improvement in productivity. The gas industry is alive to the need for it, and their efforts in this direction, including their employment of management consultants where necessary, will continue. In the past five years the industry's productivity has increased by 5 per cent a year. Between 1962-63 and 1968-69 its costs have fallen from 22.3 pence to 21.4 pence a therm, but it would be unrealistic to hope for further dramatic reductions in the next year or two. If the industry's position is not to be seriously weakened, a price increase now is in my opinion imperative.

7. Lastly, if by not raising gas prices we weaken the competitive position of electricity, the enormous investment already made in that industry may well be unremunerative.

Conclusion

8. In view of our earlier decision on electricity prices, I do not think we can reasonably avoid taking a parallel decision on gas. I accordingly recommend that the industry should be required to meet a financial objective of 6.8 per cent net of depreciation next year, which will entail increasing gas prices by an average of up to 7½ per cent this autumn.

R. M.

Ministry of Power, S.W.1.
21st July, 1967
25th July, 1967

CABINET

WATERWAYS POLICY: USE OF THE BRITISH WATERWAYS BOARD’S WATERWAYS FOR RECREATION AND AMENITY

Memorandum by the Minister of Transport

Our White Paper on Transport Policy (Cmnd. 3057) set out our proposals for the future of the waterways owned by the British Waterways Board (BWB). We undertook to consult local authorities and a wide range of other interests concerned about the preservation of a network of waterways for pleasure cruising. I now propose to publish a White Paper setting out the results of this consultation and our proposals about the future pleasure cruising network and about other recreational and amenity uses of the waterways.

2. The Home Affairs Committee have approved the draft White Paper, subject to minor amendments, and invited me to circulate a revised draft to the Cabinet for information. The attached draft takes account of the points made by the Committee.

3. I would propose to publish the White Paper in the first part of September at the same time as the BWB publish an illustrated booklet on the amenity use of the waterways. The two publications will complement each other and will, I hope, enable me, jointly with the BWB, to give the new waterways policy a good send-off.

E.A.C.

Ministry of Transport, S.E.1.

25th July, 1967
1. The Government's general plan for the future structure of British Waterways was announced in last year's White Paper on Transport Policy (Cmd.3057 Chapter VIII). It was based on the broad factual analysis in the British Waterways Board's report "The Facts about the Waterways". In the interests of safety, efficiency and economy the whole system of nationalised inland waterways is to remain under the single management of the Board. Those canals and river navigations which can form an economic transport undertaking together with such allied facilities as docks and warehouses will be operated by the Board as a commercial division of their undertaking. The non-commercial waterways are to be managed separately for amenity and other purposes.

2. Earlier last year in the White Paper on "Leisure in the Countryside" (Cmd.2923) special attention was drawn to the nation's considerable potential for all kinds of recreation in the extensive network of inland waterways in England and Wales. It was recognised that to cater for pleasure cruising on these waterways continued subsidy would be needed and those who use the waterways for recreation would have to show which facilities they wanted to support.

The Government's Consultations

3. The Government's immediate task, since the publication of Cmd.3057 has been to discuss, as promised, with all the interested bodies what sort of waterways network, and how big a network, it would be justified in maintaining for use by pleasure boats. The inescapable fact here is that whatever is done with them the
non-commercial waterways will cost the taxpayer at least £600,000 a year. And to keep open for pleasure cruising all the non-commercial waterways now available for that purpose would cost a further £340,000. This was made clear in 'The Facts about the Waterways'. But another important fact is that if a waterway is no longer maintained for navigation and works are carried out which make no allowance for the passage of boats, then the cost of eventual restoration can become prohibitive. The Government said in Cmd. 3057 that they thought it wrong to allow this to happen to those waterways which seem likely to have a valuable part to play in providing for the country's future leisure needs. Throughout the discussions that have been going on this has been the guiding principle.

4. The Government's consultations over the last twelve months have been conducted in close collaboration with the British Waterways Board. The consultations have been extensive and exhaustive. Any organisation likely to be interested in the recreational and amenity potential of the waterways has been invited to put its views forward. Almost all have done so and those consulted range from Regional Economic Planning Councils, Sports Councils, local authorities, trade associations and national societies to local clubs. As well as all this many hundreds of individuals have responded to the Minister of Transport's request for comments and ideas. Many of the suggestions received were about details of day to day management of the waterways and these are now being considered by the Board.

Round figures, 1965 prices.
5. The central issue in the consultations was of course the size of the pleasure cruising network to be retained. And here opinion was predictably unanimous. The clear consensus among all the interested organisations is that, first, apart from some pruning of disused arms and lengths of canal here and there, all the waterways now open for powered pleasure cruising should remain open. Great stress was laid on the need to retain waterways forming part of through or ring routes and it has been urged that it would be wrong to close any navigable routes to pleasure craft at a time when increasing leisure and a rising standard of living are likely to put all our facilities for recreation at a premium. Second, the great majority of those consulted think that to review the network at the end of five years and at intervals thereafter (as proposed in Cmd. 3057) would discourage private commercial investment and development by making the future of individual waterways uncertain. Thirdly, it was strongly represented that some waterways not now navigable should be restored for pleasure cruising.

6. The Government has given all these arguments very careful consideration and weighed them against the limitations of the country's financial resources.

NETWORK OF CRUISEWAYS

7. Pleasure cruising on inland waterways and rivers is no longer a pastime within reach only of the well to do. The Government welcomes this and believes that in the next few years more and more people will want to use and be able to afford to use the waterways for spare time relaxation and quiet holidays. Therefore, the Government intend, at the outset, to retain for pleasure cruising substantially the existing network available for this purpose. The British Waterways Board will be given the new and positive duty of maintaining these waterways to a standard of navigability suitable for
for powered pleasure craft. It is thus the Government's intention that for the first time, this recreational purpose of the nationalised waterways should be recognised by public Act of Parliament.

8. The Government propose that forthcoming legislation should make special provision for two distinct groups of waterways. The first will be those which are to form part of the Board's commercial division. The waterways in this category are listed in Appendix A. These waterways will be maintained primarily for commercial transport and will not be formally classed as part of the cruising network, but, of course, pleasure craft will still be able to use them as they do now. The second kind of waterway (those listed in Appendix B) will be maintained primarily for powered pleasure craft. They can no longer usefully form part of a commercial transport system and they will be known as cruising waterways - or "cruiseways".

9. There are a number of waterways not included in either of these groups which will need individual study and consideration before their future can be settled. Some of these waterways are still navigable either wholly or in part and the Board will be given discretion to allow vessels to use them or any parts of them subject to whatever conditions may be necessary. An example is the Birmingham area where the "cruiseways" will include a single through route giving connections to the rest of the system in all directions. The rest of the complex known as the Birmingham Canal Navigations will not be classed as cruising waterways. But the Board may continue to allow
allow boats to use some or all of them—several are important sources of industrial water supply—until their future can be determined in the light of detailed and expert studies.

10. The effect of all these arrangements is that well over 1,300 miles of waterways will remain open for pleasure cruising. All the long distance through routes and circuits now enjoyed by inland waterway enthusiasts will still be available. The British Waterways Board are issuing a new illustrated booklet to publicise the varied charm and attractions of the "cruiseways" and the navigable rivers which link with them.

The Future Security of the System

11. Cmd. 3057 said that the Government would review the whole of the cruising network after five years and thereafter at regular intervals. It is not now proposed to institute a formal review of this kind either at the end of five years or at other set intervals. The reason for this decision is that the Government recognises that uncertainty about the future of a waterway might deter prospective private investors and so hinder a waterway's development for recreation, e.g. by the building of marinas or the provision of cruising craft for hire.

12. But the Government will initially have to make a substantial grant-in-aid so as to enable the Board to maintain such an extensive network of cruising waterways. Obviously the funds available for this are not /limited
unlimited and the grant, like any other Exchequer subsidy, will have to be kept under review as part of the normal process of national housekeeping. What this means is that the future of the cruising network must depend very largely on how far people take the opportunities for leisure and recreation which it offers. The Board will naturally do everything it can to promote the network's use by the public and to maximise the revenue derived from this use.

13. There must, however, be suitable machinery for the closure of a waterway if this becomes necessary in the national interest. Equally it must be possible to add to the cruising network if this proves the right thing to do. All who may be concerned in any such moves must have their interests safeguarded. In all these matters the Minister will have the advice of a new permanent consultative body (see paragraph 14 below). But, as well as this, the forthcoming legislation will enable her to publish a proposal for, say, transferring a waterway from the commercial to the cruising category or for adding a restored waterway to the network by means of a draft statutory instrument. It will be possible to lodge objections to the draft instrument and the Minister will have power to hold a public enquiry if she thinks fit. If in the end the Minister decides to make an order it can still be annulled by a resolution of either House of Parliament. Under this procedure there can be no sudden or arbitrary closures.

Consultative Machinery

14. One of the outstanding features of the discussions the Government has had over the last twelve months about the future of the nationalised waterways has been the many constructive ideas put forward by the voluntary bodies and individuals who know and love the waterways. The Government wants to encourage this kind of thinking and to see that it is, whenever possible,
put to practical use. The Government, therefore, intend to set up as soon as possible and before the forthcoming legislation is introduced a standing Inland Waterways Advisory Council. The Bill will provide for this to become a permanent statutory body. Its Chairman will be a member of the British Waterways Board and the other members of the Council will be appointed by the Minister for their personal qualities and qualifications.

15. The functions of the Council will be broadly to advise the Board and the Minister on any proposals to add to or reduce the cruising waterways (including, of course, proposals for restoration); to consider any complaint about persistent failure by the Board to maintain a significant length of a cruising waterway in a suitable condition for use by pleasure craft; and generally to consider and make recommendations to the Board or the Minister about the use or development of the cruising waterways for amenity or recreation and about services or facilities provided on them. The Council will be able to consider matters of this kind at the request of the Board or the Minister, or on representations that may be made to them by outside persons, or on their own initiative.

Restoration Schemes

16. In recent years voluntary societies have put forward a number of schemes for restoring lengths of disused canal to navigation. Many of these schemes are highly attractive because they would re-open waterways running through lovely countryside. On the other hand the capital cost of such schemes can be very high and each restoration, when carried out, brings in its train a new and continuing liability for maintenance. Despite this the Government is keen to encourage volunteer efforts to develop the amenity network of waterways. One of the main jobs of the Advisory Council will be to examine the merits of all proposed restoration schemes in consultation with the British Waterways Board.
Board and any local authorities which may be concerned. In doing this the Council will pay special attention to the need for realistic estimates of capital and continuing costs and it will take account of any financial aid likely to be available and the prospects of revenue to be gained from the re-opened waterway.

Help from Local Authorities

17. Many forward-looking planning authorities, notably the Greater London Council and the canalside London Boroughs, have been showing active interest in the potentialities of the waterways for local amenity and recreation. It is already open to them to further this end in a variety of ways, e.g. by giving assistance, under the Physical Training and Recreation Acts, in the provision of facilities for clubs, by using their powers under the Public Health Acts to develop parks and pleasure grounds for recreational purposes or by the creation and maintenance of public walks along towing-paths.

18. The Government will be prepared to consider any expansion of existing powers which the local authority associations may have to propose in this connection.

Angling, Canoeing and other interests

19. Cruising in boats is by no means the only form of recreation on the waterways. Coarse fishing, a sport enjoyed by many people, young and old, some of very modest means, has been popular on the canals for many years and the interests of anglers must not be overlooked. Canoeing is becoming increasingly popular with the younger generation. Some of the waterways are of great interest to naturalists. There is a clear risk of conflict here unless all waterway-users exercise mutual consideration. All these interests will be taken into account in planning the future of the amenity waterways and the Minister will have this great variety of interests in mind when making appointments to the Advisory Council.
20. In the waterways this country possesses a priceless asset, an asset whose value will grow as the demand for leisure facilities intensifies. The Government now intend the British Waterways Board to have a new and positive role to play in the development of this potential, recognized by statute for the first time. This is in effect a new charter for the waterways. But to get the most out of this charter legislation and official action will not be enough. The Government is confident that many thousands of ordinary people will welcome its plans and it looks to all those who enjoy the waterways to help in seeing that they are fully, imaginatively and adventurously used as the great amenity network they are.
APPENDIX "A"

The Commercial Waterways

The main navigable channels of the following waterways:

The Aire and Calder Navigation from the tail of River Lock, Leeds and from the Calder and Hebble Navigation at Wakefield, to its entrance to Goole Docks and to its junction with the River Ouse at Selby.

The Calder and Hebble Navigation from the tail of Greenwood Lock to its junction with the Aire and Calder Navigation at Wakefield.

The Caledonian Canal

The Crinan Canal

The Sheffield and South Yorkshire Navigation from the tail of the bottom lock at Tinsley to its junction with the River Trent at Headby.

The New Junction Canal connecting the Sheffield and South Yorkshire Navigation with the Aire and Calder Navigation.

The Trent Navigation from its junction at Nottingham with the Nottingham Canal to Gainsborough Bridge.

The Weaver Navigation and the Weston Canal from Winsford Bridge to the junction with the Manchester Ship Canal at Marsh Lock and at Delamere Dock.

The River Severn from Stourport to its junction with the Gloucester and Sharpness Canal at Gloucester.

The Gloucester and Sharpness Canal

The River Lee Navigation from Hertford to the River Thames at Limehouse, and to the tail of Bow Locks.

* Detailed descriptions subject to correction before publication.
The main navigable channels of the following waterways:

The Ashby Canal from its junction with the Coventry Canal to Snarestone.

The Birmingham Canal from its junction with the Birmingham and Fazeley Canal at Farmer's Bridge and from its junction with the Worcester and Birmingham Canal at West Bromwich to its junction with the Staffordshire and Worcestershire Canal at Aldersley by way of the Birmingham Level as far as the head of Factory Locks, Tipton and thence by way of the Wolverhampton Level, including the branch leading to its junction with the Stourbridge Canal at Black Delph by way of the Netherton Tunnel.

The Birmingham and Fazeley Canal from its junction with the Birmingham Canal at Farmer's Bridge to its junction with the Trent and Mersey Canal at Fradley, including the detached portion of the Coventry Canal between Huddersford Junction and Fradley Junction.

The Calder and Hebble Navigation from Sowerby Bridge to the tail of Greenwood Lock including the Huddersfield Broad Canal.

The Chesterfield Canal from the tail of Horse Lock, Worksop, to its junction with the River Trent.

The Coventry Canal from its junction with the Birmingham and Fazeley Canal at Fazeley to Coventry.

The Erewash Canal from a point near Long Eaton, to its junction with the River Trent.

The Fosdyke Navigation

1. /The Grand
The Grand Union Canal from its junctions with the Birmingham and Fazeley Canal at Digbeth and Salford to its junctions with the River Thames at Brentford and at Regent's Canal Dock including the branches to Northampton and Aylesbury and the Hertford Union Canal leading to the River Lee at Old Ford.

The Grand Union Canal from Leicester to Norton Junction including the branch to Market Harborough.

The Kennet and Avon Canal from Hinksey Bridge, Reading, to the tail of Flete Hill Lock, from the top gate of Ball's Lock (east of Newbury) to Hampstead Lock tail gate (west of Newbury), and from the tail of Waltham Lock to the tail of the bottom lock at Bath.

The Lancaster Canal from Preston to Tewitfield including the branch to Glasson Dock.

The Lea and River Colne Canal from Aintree to Leaside including the branches to Tarleton and Leigh.

The Calderfield Canal.

The Oxford Canal from its junction with the Grand Union Canal at Braunston to its junction with the Coventry Canal at Tamworth and from its junction with the Grand Union Canal at Haydon to Oxford including the branch to the River Thames.

The Peak Forest Canal from the top of Marple Locks to Newbridge.

The Trent Valley Canal from its junction with the River Ure to the tail of Westwick Lock (also known as Littlethorpe Lock).

The Shropshire Union Canal from Ellesmere Port to its junction with the Staffordshire and Worcestershire Canal at Litherley, including the branches to the river Dee at Chester, to Llantysilio and to Middlewich.

The River Stort Navigation from its junction with the River Trent to Leicester.

The Staffordshire and Worcestershire Canal.

The River Stort Navigation

The Stourbridge Canal from its junction with the Birmingham Canal at Black Delph to its junction with the Staffordshire and Worcestershire Canal at Stourton.
The Stratford-on-Avon Canal from its junction with the Worcester and Birmingham Canal at King's Norton to its junction with the Grand Union Canal at Kingswood.

The Trent and Mersey Canal including the branch to Hall Green.

The Trent Navigation from Shardlow to the tail of Meadow Lock, Nottingham, by way of the Beeston Canal and part of the Nottingham Canal and including the branch to the river Soar and the length of the river Trent from its junction with the Nottingham Canal to Beeston Pier.

The River Ure Navigation from its junction with the Ripon Canal to Swale Nab.

The. lincoln Navigation from Lincoln to Boston.

The Worcester and Birmingham Canal.

Detailed descriptions subject to correction before publication.