26 - The Run-Down of the British Army. Note by the Secretary of State for Defence

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34 - The Open University. Memorandum by the Secretary of State for Education and Science

35 - Future of the Open University. Memorandum by the Secretary of State for Education and Science

36 - Public Expenditure Review 1970: The Open University. Memorandum by the Chief Secretary, Treasury

37 - The Central Capability. Note by the Prime Minister

38 - Public Expenditure. Memorandum by the Chancellor of the Exchequer

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40 - Concorde. Note by the Secretary of the Cabinet.

41 - Non-Industrial Civil Service Manpower. Memorandum by the Lord Privy Seal

42 - Aid. Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

43 - Proposed New Design Council. Memorandum by the President of the Board of Trade

44 - The British Contribution to Development. Memorandum by the Minister of Overseas Development

45 - Mersey Docks and Harbour Board - Financial Situation. Memorandum by the Minister of Transport
46 - Assistance to the Hotel Industry. Memorandum by the President of the Board of Trade

47 - School Building Programmes. Memorandum by the Secretary of State for Education and Science

48 - Effect of the Current Public Expenditure Review on Government Research and Development. Memorandum by the Lord Privy Seal

49 - Public Expenditure: Telecommunications, Posts and Broadcasting. Memorandum by the Minister of Posts and Telecommunications

50 - A Policy for the Arts. Memorandum by the Paymaster General
CABINET

THE RUN-DOWN OF THE BRITISH ARMY

Note by the Secretary of State for Defence

I attach the draft of a Parliamentary Statement on the run-down of the British Army which I would like to make before the Recess, as there is increasing speculation about our intentions in Parliament and the Press, and also in the Army itself, where the next reductions planned by the previous Government are due to complete in about six weeks' time. I will explain the problem more fully at the meeting.

C

Ministry of Defence SW1

22 July 1970
ANNEX

DRAFT PARLIAMENTARY STATEMENT

The House will know that for some time the Army has been carrying out a number of reductions of major units. The first phase of these reductions - 17 major units - was completed in March this year. In the second phase nine major unit reductions are due to be completed over the period from September of this year to March 1972. The previous Government also announced that it might prove necessary during this period to reduce by a tenth further major unit or the equivalent.

2. The numerous changes in the defence policies of the previous Government adversely affected morale in the Armed Services and had a very damaging effect upon recruiting. In consequence, the manpower position in the Army and in the other Services is serious. Recruiting of other ranks for the armed forces as a whole fell from nearly 40,000 in 1966/67 to about 26,000 in 1968/69. Last year it improved to about 34,000, although this was still 12,000 or about one-quarter short of what was required. The present strength of the Army is about 7,000 below establishment. The shortages are most serious in the Royal Artillery, the Signals and the Infantry. For some years now the number of men leaving the Army has been greater than the intake of new recruits. This again, in view of the previous Government's policies, is not surprising although it is deeply regrettable.

3. It will be a prime objective of our policy to restore confidence in the Services as a career. But it is quite clear that it will take us time to undo the damage caused by the last Government, and that for some time to come serious manpower shortages will remain.

4. So bad has the position become, that it has been necessary on a number of occasions recently to bring infantry battalions up to an acceptable strength for particular tasks by posting in men from other units in the same Division of Infantry. This arrangement can be used to meet the immediate needs of the receiving battalion but it places a greater load on other units and increases the disturbance to which men and their families are subjected. It is not an acceptable basis on which to plan except in the short term or in an emergency. In this serious situation a sudden total reversal of the previous Government's plans would have unacceptable consequences for the Army as a whole and for the individual men and their families.

5. Accordingly after careful consideration we have reached the following decision.

6. All the Royal Armoured Corps and infantry units affected by Phase II of the rundown will be offered the option of remaining in being as units of a size which at least in the first instance would have to be strictly limited.
7. These units will fulfil necessary roles including those of training and recruiting, and will vary in size according to the roles allocated to them.

8. This means that where disbandment was proposed the unit concerned will be offered the alternative of continuing as a Unit of limited size. Where the reduction was being affected by amalgamation the choice would be either to continue with the amalgamation or to retain one of the two units affected at normal strength and the other in a special role.

9. Discussions will be opened immediately with the Colonels, Commandant and other concerned. In addition, the Government has decided that there is no need to include the tenth reduction in the second phase as the previous administration had considered possible. We can now remove the uncertainty that this possibility created. This reduction will not take place.

10. If additional full battalions or RAC Regiments are formed in the future the units referred to in this statement would be the first to be considered.
I submit for the approval of my colleagues proposals for the legislative programme for the remainder of the current Session, which have been considered by the Ministerial Committee on Future Legislation; these are set out in Annex A to this memorandum. At Annex B, I have listed the Bills, mostly minor in character, which have already been introduced or will have been introduced by the time both Houses rise for the Summer Recess.

2. If we are to avoid hasty and ill-considered legislation, we must take a firm stand now against including in the legislative programme more Bills than the available Parliamentary time and drafting resources can reasonably accommodate. Inevitably this will mean holding over until a subsequent Session some measures which we would like to obtain now, but I am sure that it is the right basis on which to proceed and in this I have the support of my colleagues on the Ministerial Committee. It is particularly important to resist the temptation to attempt too much in this first Session, because as a new Government we have had no chance to push preparations and drafting ahead before the Session opened and it will not be easy to have sufficient Bills ready for the earlier part of the Session. And if business is to be discharged efficiently we must avoid placing too heavy a load on any one Minister and his Department.

3. The list of Bills in Annex A is classified under the following headings:

A1 - Essential Bills - that is Bills which must be obtained by a specific date (e.g. because otherwise powers will lapse or some financial limit be exceeded.)

A2 - Contingent Bills - that is Bills the need for which is not as yet certain, but which may become essential in the above sense.

B - Main Programme Bills

C - Bills in Reserve
B(S) - Bills for Scottish Grand Committee

S - Bills suitable for Second Reading Committee Procedure

P - Bills suitable for Private Members

The remaining Bills put forward for the Session's programme, for which no place has been found, are listed in Annex C.

Details of the Programme

4. Taking the categories of Bill in turn, I would make the following points in the light of the discussion in the Ministerial Committee and of the views expressed by Ministers in charge of Departments.

5. Essential Bills. The Secretary of State for Scotland is anxious to see included a Bill to increase the allowance payable to Her Majesty's High Commissioner to the General Assembly of the Church of Scotland. Accepting that the present limit of £7,500 is quite unrealistic and that failure to raise it may necessitate unpleasant economies, I do not see how such a Bill could fail to spark off controversy about the Civil List. There are embarrassments either way and I must ask the Cabinet to decide.

6. Contingent Bills. These are Bills that may become essential; in practice only a proportion of them is likely to materialise. European Communities is shown here although legislation in this field seems extremely unlikely in the present Session and, if substantial, would probably make it necessary to drop some other Bills.

7. Main Programme. This is the most important part of the programme and the one where the pressure for a place is heaviest; to prevent overloading the programme I have felt bound to reject a number of the Bills put forward as highly desirable. I have excluded Cigarette Smoking and Fluoridation because it seems to me far from clear that we will wish to legislate on these difficult subjects. Building and Units of Measurement should, I think, wait in view of the number of other Bills which the Minister of Housing and the Minister of Technology are sponsoring. Civil Aviation I had originally placed in the reserve list, but in view of the risk that failure to legislate early to change the present licensing system might imperil attempts to build up a second force, the Ministerial Committee agreed that a Bill limited to this one aspect should be included in the main programme and Gas Industry Reorganisation be moved to the reserve list to make room for it. I have not included Licensing (Abolition of State Management in Scotland), because I think it would be premature to legislate for Scotland until we have settled our policy on the Carlisle State Management District; but the Secretary of State for Scotland is, I understand, reluctant to accept this.
8. Bills in Reserve. I have placed Commercial Radio here because it is likely to be some time before we have a Bill ready. Much as we would like to see the Bill pass into law this Session, it would be a mistake to introduce so controversial a measure late in the Session.

9. Scottish Grand Committee Bills. I have shown all the Bills proposed by the Secretary of State, leaving him to decide which can be accommodated within the drafting resources and time on the Floor available to him.

10. Second Reading Committee Bills. I regard this procedure as a valuable way of handling non-controversial legislation and would like to encourage it. The list includes a number of Law Commission Bills and others which have already been drafted.

11. Bills for Private Members. I have shown here all the Bills which seem suitable for handing to Private Members, but would welcome more suggestions.

12. I invite the Cabinet to approve the programme which I now put forward. It would be unwise to add new Bills to it without making corresponding deletions.

W W

Privy Council Office, SW1

23 July 1970
PROGRAMME FOR REMAINDER OF 1970-71 SESSION

<table>
<thead>
<tr>
<th>Classification</th>
<th>Bill Description</th>
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<td>A1: Essential Bills</td>
<td>BOAC Borrowing Powers</td>
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<td>British Airports Authority</td>
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<td>Coal Industry</td>
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<td>Expiring Laws</td>
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<td></td>
<td>Mineral Workings Act 1951 (Amendment)</td>
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<td></td>
<td>New Towns (Money)</td>
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<td>Services Discipline</td>
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<td>A2: Contingent Bills</td>
<td>Agricultural Mortgage Corporation</td>
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<td></td>
<td>Bahamas Independence</td>
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<td></td>
<td>British Honduras Independence</td>
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<td></td>
<td>British North America Acts (Amendment)</td>
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<td>Ceylon Republic</td>
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<td>Channel Tunnel</td>
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<td>Colonial Prisoners Removal (Persian Gulf States)</td>
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<td>European Communities (Membership)</td>
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<td>Merchant Shipping Act 1894 (Australian Amendment)</td>
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<td>Northern Ireland (Financial Provisions)</td>
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<td>Shipbuilding Industry</td>
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<td>Sierra Leone Republic</td>
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<td>B: Main Programme Bills</td>
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<td>Highway Law Amendment</td>
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<td>Pollution of Beaches by Oil</td>
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<td>Sale of Goods</td>
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**C: BILLS IN RESERVE**

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<td>Gas Industry Reorganisation</td>
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<td>Juries</td>
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**B(S): BILLS SUITABLE FOR SCOTTISH GRAND COMMITTEE**

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<td>Hospital Endowments (Scotland)</td>
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<tr>
<td>Law Reform Miscellaneous Provisions (Scotland)</td>
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<tr>
<td>Marriage (Scotland)</td>
<td>40</td>
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<tr>
<td>Prescription and Limitation of Actions</td>
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<td>Sheriff Courts (Scotland)</td>
<td>45-50</td>
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<td>Slaughterhouses and Slaughter of Animals (Scotland)</td>
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**Length (Clauses)**

### S: SECOND READING COMMITTEE BILLS

- Ancient Monuments: 20
- *Banking and Financial Dealing*: 4
- Civil Liability for Oil Pollution Damage: 10
- Control of Foreign Goods Vehicles: 5
- *Diplomatic Privileges and International Organisations*: 4
- Electricity Supply: 4, 5
- En Route Air Navigation Services Charges: 2-3
- Foreign Compensation (Czarist Assets): 4
- *Friendly Societies*: 11
- Hi-jacking of Aircraft: 12
- Land Registry: Short
- Malicious Damage: 15
- Mineral Workings (Offshore Installations): 12
- Nauru: 4
- Opinion Evidence: Short
- Reciprocal Enforcement of Maintenance Orders: 20
- Recognition of Foreign Divorces: Short-Medium
- Rural Water Grants: 2
- *Wild creatures and Forest Laws*: 2
- *Already drafted*
- Law Commission Bill

### P: POSSIBLE PRIVATE MEMBERS BILLS

- Carriage of Goods by Sea (Amendment): 6
- Compulsory Passenger Liability Insurance: 2
- Foreign Arbitral Awards: Short
- Gaming Act (Amendment): 1
- Inertia Selling: 6
- Letters of Administration: 12
- Physical Training and Recreation Act (Amendment): Short
ANNEX B

BILLs ALREADY INTRODUCED

Animals
Education (Handicapped Children)
Fiji Independence
Harbours (Amendment)
International Monetary Fund
Local Government (Qualification of Councillors)
Mines Management
Misuse of Drugs
National Insurance (Old persons' and widows' pensions and attendance allowance)
Oil in Navigable Waters
Teaching Council (Scotland)
Water Resources
ANNEX C

Length (Clauses)

BILLS WITH NO PLACE IN THE PROGRAMME

Pesticides 30
National Libraries 12
Fluoridation 6
Cigarette Smoking 7-8
Criminal Evidence 40-45
Rent Rebates 2
Building 30-40
Local Government (Miscellaneous Provisions) Unknown
Labour-only sub-contracting in the construction industry 12
Lord High Commissioner (Church of Scotland) 2
Licensing (Abolition of State Management) Scotland 6
Units of Measurement 20
Control of Dangerous Goods in Harbours 10
Building Societies 20
Since the war, public service pensions have been increased under a series of Pensions (Increase) Acts, the more recent of which have been introduced ad hoc by successive Governments at intervals of 3 years or rather more. Corresponding increases have been provided for retired members of the Armed Forces under Royal Warrant.

2. The early Acts gave small increases on a means-tested basis. The Acts since 1959 have provided increases on scales which have given modest improvements for those fairly recently retired, but substantial increases for pensioners of long standing; for example the most recent Act, which took effect from 1 April 1969, gave increases of 18 per cent for those whose pensions began not later than 1 July 1955, whilst later pensions had increases tapered down by 1 per cent or 2 per cent for each successive year to a minimum of 2 per cent on pensions which began in the year 2 July 1966 to 1 July 1967. The cumulative effect of the Acts has been to give the great majority of those who retired in the middle 1950s full compensation for the rise in the cost of living since their retirement; but many of the larger pensions dating from before that period, as well as the great majority of later pensions, are still well short of their original purchasing power. Moreover, the successive application of a series of standard scales of increase over the whole of the public services has resulted in some severe anomalies: in several cases older pensions have been brought well above the level of those awarded more recently.

BIENNIAL REVIEWS

3. It is common ground that the approach adopted in the recent Acts has now outlived its usefulness, and that a completely new system is needed for the future. There is also agreement between the two main parties about the form that that system should take. Shortly before the General Election, the last Government committed themselves to introducing 2-yearly reviews with the object of maintaining the purchasing power of public service pensions; our election manifesto contained a similar commitment. The texts of these commitments are at Annex I. The long-term aim of the pensioners' organisations is full
parity of pensions, i.e. bringing all past pensions up to the levels currently awarded for the same record of service. Parity was, however, firmly rejected by spokesmen from both sides during the passage of the last Pensions (Increase) Act in early 1969, on grounds both of principle and of cost; and there is little doubt that pensioners as a whole would welcome 2-yearly reviews designed to maintain the purchasing power of their pensions as a major step forward. The last Pensions (Increase) Act provided increases with effect from 1 April 1969. We therefore need legislation to provide for a system of biennial reviews, the first to cover the period 1 April 1969 to 1 April 1971.

EXISTING PENSIONERS

4. Merely to maintain the purchasing power of pensions as they stood in April 1969, by means of 2-yearly reviews from April 1971 onwards, would do less than justice to the many existing pensioners whose pensions at April 1969 were still well below their original purchasing power. Both major Parties have recognised this and the last Government accordingly proposed a once-for-all operation to restore the original purchasing power of existing pensions as at 1 April 1969, from which point in time the 2-yearly reviews would take over. We have said that we will deal with the problem in a somewhat different way by bringing up all the pre-1956 pensions to the 1956 level, with appropriate increases since. The pledge in our manifesto, however, which repeated undertakings given by Opposition spokesmen when the Pensions (Increase) Act 1969 was before Parliament, was based on the assumption that the pensions of those who retired after 1956 had in the main retained their purchasing power through the increases provided by the Acts after that date. While this is true of the 1956 pensions, a detailed examination of the figures has shown that it is far from the case for those of more recent origin. Because the recent Acts concentrated the largest increases on the pensions of longest standing, those dating from the early 1960s have done badly. Even when the increases due under the 1969 Act became effective, most of them were still 10 per cent or more below their original purchasing power, and many were below the level to which pensions for comparable service first awarded many years earlier had by then been increased. Some representative examples are shown in the tables at Annex 2.

5. This highly unsatisfactory situation has some serious consequences for the pledge to increase the old pensions to 1956 levels. To carry it out in the form in which it was given would mean doing nothing for those who retired in the early 1960s and have done badly hitherto, and it would understandably be regarded by them as most unfair. Moreover, although 1956 was at one time represented by the Officers' Pensions Society as an appropriate date for Armed Forces Pensions, we can now see that there is nothing about 1956 that makes it an obvious anchor for a once-for-all operation to deal with the deficiencies of the past. On the contrary, to bring past pensions up to
1956 levels only would cause such gross anomalies that irresistible pressures would quickly develop for a later date and we should be in danger of being pushed in a few years towards full parity. It is important that we should avoid that slippery and expensive slope.

6. One way of overcoming this difficulty would be to bring up the pre-1956 pensions to 1956 levels in accordance with our undertaking, but also to restore fully the purchasing power of those awarded since that date. An alternative would be to bring up the oldest pensions only to 1946 levels and to restore purchasing power thereafter. Either of these possibilities has serious financial implications, not least in the context of the radical reduction in public expenditure to which we are all committed. Levelling up to 1956 in strict accordance with our election pledge would cost some £8 million to £10 million. Levelling up, whether to 1946 or 1956, coupled with the restoration of the purchasing power of the more recent pensions would cost some £25 million to £30 million. This is a very serious matter, but I am sure that it must be faced. I suggest later in this paper ways of easing the additional financial burden that it represents.

7. As between levelling up to 1946 and 1956, I believe that the former is to be preferred. 1956 is far from being the watershed that we had taken it to be, and if we level up to one arbitrary date, the pressures to move forward in a few years time will be very strong. There is in my judgment a real danger that we should then be on the slope that would lead us to full parity. It is significant that the Officers' Pensions Society, who originally urged the adoption of 1956, are already pressing for 1960, if not a later date. Despite all this, officials have been instructed to process the 1956 proposal further, but nothing I have seen so far suggests that this will lead to any different conclusion.

8. 1946 - or, for the Armed Forces, the introduction of the 1945 code - does represent a watershed, since it marks the beginning of the post-war period. Only the Armed Forces, the police and fire services and the overseas services have substantial numbers of surviving pensioners who retired before 1946. Levelling up to that date would, therefore, present far fewer administrative and technical problems than levelling up to 1956, which would affect all the public services. Levelling up to 1956 would be more closely in line with the precise terms of our pledge. But the alternative of 1946 with full cost of living compensation thereafter would, I believe, if properly presented, be widely accepted as fully discharging the spirit of the pledge, and the other advantages it offers seem to me to be decisive.

INCREASES FROM AGE 55

9. We have also undertaken to reduce from 60 to 55 the minimum age for paying pension increases. This is of particular importance to former members of the Armed Forces, the police and fire services and the overseas services, who retire at relatively early dates. There is no difficulty of principle here: it is a practical question of cost and priorities.
10. To make good the loss in purchasing power of public service pensions between April 1969 and April 1971 would cost about £35 million in the first full year. No estimate can be made of the cost of further biennial reviews, since that would be wholly dependent on the rise in the cost of living. Levelling up to 1956, unaccompanied by any improvement in post-1956 pensions, would cost some £8 million to £10 million. Levelling up to 1956 or to 1946 with the restoration of purchasing power thereafter would come to some £25 million to £30 million. By way of comparison it should be noted that parity to 1969 would cost some £75 million, and to 1971 well over £100 million. Finally, a reduction from 60 to 55 in the minimum age from which pension increases are paid would cost some £6 million to £8 million.

11. I am convinced that we must introduce biennial reviews on April 1971 and that we must at the same time take effective steps to deal with the deficiencies of past measures. Public Service pensions were last increased on 1 April 1969, and the first of the biennial reviews ought therefore to deal with the period ending on 1 April 1971. The Conservative Party manifesto set out a programme for a 5-year Parliament and not a single session, and the pledge to introduce biennial reviews does not necessarily imply that the first such review will take place in 1971. But the pressures for action in 1971 will be very strong. Lord Shackleton’s letter of 3 June committed the last Government to a review next year, and there will be widespread criticism if the expectations to which this has given rise have to be disappointed.

12. Hitherto, the shortest period between successive Acts has been 3 years, but this, in itself, would hardly justify a major postponement of the first review; the length of time between Acts has been one of the main criticisms of the old system. Moreover, the cost of living has been rising unusually rapidly since the 1969 Act took effect - the rise from mid-March 1969 is already over 7 per cent. This may be compared with an increase of 6.4 per cent between the 1956 and 1959 Acts and 10.4 per cent between those of 1959 and 1962. (It is worth noting in passing that these figures have got progressively worse; between the 1962 and 1965 Acts the cost of living went up by 11.3 per cent and between the 1965 and 1969 Acts by 14.2 per cent). The case for action in 1971 therefore seems very strong.

13. When the commitment to reduce to 55 the minimum age for pension increases is taken into account, the cost of these proposals in the first year rises to some £70 million (£35 million for the first biennial review; £25 million to £30 million for the once-for-all increases to deal with past deficiencies and £6 million to £8 million for reducing the minimum age from 60 to 55). This is a formidable figure and I have considered carefully what we might reasonably do to reduce it.
14. First, I suggest that we should defer for the time being the reduction in the minimum age to 55. I do so reluctantly. This is a long-established commitment of our Party, going back to 1964, but it does not command the same priority as our other proposals and I believe that that would be accepted even among the pensioners of the Armed Forces and those public services most directly affected. We ought, however, to make it absolutely clear that this is no more than a postponement, that this is a commitment which we will honour within the lifetime of this Parliament and that postponement therefore does not mean the repudiation of our election pledge. I suggest that we should do this by enacting the age reduction in the Bill, leaving the effective date to be determined by statutory instrument. The way will then be open for us to bring it into effect as soon as the financial position allows, and without waiting for further legislation. Deferment of the reduction in the minimum age would reduce the cost of the proposals to around £60 million.

15. Secondly, there is room for some manoeuvre over the date from which increases under the 2-yearly review should first be payable. The object of the review will be to make good the loss of purchasing power over the period to which it relates. Some time will be required to establish what increases are due and to make them payable; if the review relates to a period ending on 1 April, there is no prospect of making increases effective earlier than the following September. The choice is, therefore, between paying in September with a current effective date (say 1 September) or paying in September with an effective date of 1 April. In other words there is no question of getting money into the hands of the pensioners earlier than September; the question is whether we should then pay with retrospective effect to the end of the review period, which would give the pensioners some 5 months back pay.

16. Deferment of the effective date of the increases I have proposed from 1 April to 1 September 1971 would save some £25 million in the next financial year (on the basis of a saving of some £5 million for each month of deferment), thus reducing the total use of our proposed "package" to some £35 million in the first year. Moreover, whatever date is chosen on the occasion of the first review will determine the date from which future increases are paid. If 1 April is conceded on this occasion, retrospection to 1 April will be inevitable on subsequent reviews.

17. The spokesmen for the pensioners will no doubt press for an effective date of 1 April. But it hardly seems necessary to contemplate paying increases with 5 months retrospection on the occasion of each review. The main object is to give the pensioners a continuing level of income that will enable them to support a reasonably even standard of living. No doubt it will be argued that if increases are not paid retrospectively, pensions will at best lag 5 months behind movements in the cost of living, and at worst 2 years and 5 months. That may be so,
but in any system of this kind some lag is inevitable. Further, for the
great majority of pensioners this is an enormous improvement on the
present system. The last Act kept some of them waiting a full 5 years
for their first increases and then provided much less than the full
restoration of purchasing power. With the present pressure on public
expenditure we cannot afford to pay a bonus representing 5 months
arrears of increase every 2 years. It will help us to get this accepted
if we do not introduce the Bill until after the Easter Recess next year.

RECOMMENDATIONS

18. My recommendations are as follows:-

(i) We would introduce a system of biennial reviews to
    maintain the purchasing power of public service
    pensions.

(ii) The first review should cover the period 1 April 1969
    to 1 April 1971.

(iii) As a once-for-all measure, the oldest pensions should
    be brought up to 1946 levels and all pensions from that
    date onwards should have their original purchasing
    power restored as at 1 April 1969.

(iv) The effective date for the payment of increases following
    the first review should be 1 September 1971.

(v) The reduction from 60 to 55 in the minimum age from
    which pension increases are payable should be
    deferred for the time being, but the Bill should make
    provision for the reduction, the effective date to be
    determined by statutory instrument; and our spokesmen
    in both Houses should make it plain that we propose to
    make this reduction effective within the lifetime of the
    present Parliament.

J

Civil Service Department SW1

27 July 1970
COMMITMENTS OF THE TWO MAIN PARTIES

Conservative Party

The Conservative Party's commitments on public service pensions were set out in their election manifesto in the following terms:

"We will lower the age at which public service and armed forces pension increases become payable to fifty-five, and the pensions of those who retired before 1956 will be brought up to the same level as if they had retired then with appropriate increases since. The purchasing power of public service pensions will also be protected by a two-yearly review. Special treatment will be given to war pensioners and their widows."

It seems clear from the report of the Conservative Policy Committee under the chairmanship of Lord Aldington that what we had in mind was that the basic pre 1956 pensions would be brought up to 1956 levels and increased in accordance with the increases provided for 1956 pensions by subsequent pensions increase legislation. No increases in the post 1956 pensions were proposed because it was thought that their purchasing power had already been maintained by this legislation.

Labour Party

2. The Labour Party defined their position in a letter from Lord Shackleton, then the Lord Privy Seal, to the Secretary of the Public Service Pensioners' Council on 3 June 1970. The text of this letter is set out in the appendix to this Annex; its substance may be summarised briefly as follows:

(i) Purchasing power to be protected by two-yearly reviews, the first to cover the period up to April 1971.

(ii) A once-for-all measure to increase all pensions which have not recovered their original purchasing power as at April 1969 by the amount necessary to bring them up to that point.

The letter took up a firm position against parity.
Text of letter from Lord Shackleton, Lord Privy Seal, to Dr Barnes, Secretary of the Public Service Pensioners' Council, dated 3 June 1970

"You were kind enough to call on me with your colleagues on 3 June to discuss future pension increase arrangements, and I said that I would let you have a note in writing of what I then told you.

2. I explained that, with the approach of the General Election, the Government had been asked what their future intentions were on this subject. As you already know from earlier talks with my officials we have been hard at work on the undertaking given by the Government when the last Pensions (Increase) Act was before Parliament that we would see whether we could not devise more satisfactory arrangements for the future, taking into account the provision in the new National Superannuation and Social Insurance scheme for reviewing the main rates of pension and other benefits at 2 yearly intervals. Our review is not yet complete, but the main lines on which we shall proceed in future are now sufficiently clear.

3. There is, I think, general agreement on the main defects of the present scheme. First, pensioners have no assurance that pensions will be reviewed at regular intervals. In recent years there has been a gap of about 3 years between successive Acts, but there has been no certainty that future action will be taken within any predetermined period. Moreover, I know that it is widely felt that an interval of 3 years or more between measures is too long.

4. Secondly, the increases provided have not been directly linked to changes in the cost of living, and it has been very difficult for pensioners to guess in advance what measure of increase might be available to them.

5. The way we have felt it necessary to distribute the available money has meant that increases payable in the early years of retirement have been of modest proportion and it is only after a fairly lengthy period that we have been able to get near to full compensation for changes in the cost of living.

6. This is not to say that we now think that the resources made available under the previous Pensions (Increase) Acts were badly distributed. I believe that public service pensioners have fully understood and sympathised with the Government's decision to concentrate as much as possible of the available money on the pensions of longest standing, which did so badly under the early /Acts
Acts after the war and have been most urgently in need of improvement.

7. The two Acts we introduced in 1965 and 1969, which cost roughly as much as all the previous post-war Acts together, made a valuable contribution towards making good the deficiencies of the past. But it is clear that a new approach is necessary. The present system has produced many anomalies and inconsistencies, and a further Act on the same basis would be likely to intensify them.

8. We have therefore decided that we should go over to a completely new system, which will be designed to give full protection to the purchasing power of public service pensions. We will do this by means of two yearly reviews. You will remember that during the debates on the 1969 Act we undertook that if by April 1971 the cost of living had risen by more than 4 per cent we would make a statement to Parliament indicating what action we proposed to take. As soon as we know the full extent of the increases during the 2 year period up to April 1971 we will take steps to increase public service pensions accordingly. Further reviews will be held at 2 yearly intervals and in this way we shall be able to guarantee that in future the purchasing power of these pensions will not be gradually eroded away over a lengthy period of years, as has happened in the past. We will also shorten the period between the cut off date and the effective date of future increases, so that pensioners no longer have to wait for anything up to 5 years for the first revision of their pensions.

9. I feel sure that your Council will agree that this inflation proofing of public service pensions represents a major step forward. I know that their ultimate objective is parity, and that what I have proposed falls somewhat short of that. But we do not see how we could possibly justify the introduction of parity. It goes well beyond the commitment that we have been able to accept in respect of pensions and benefits under the new National Superannuation and Social Insurance scheme and it would put public service pensioners in a highly favourable position as compared with other pensioners in this country. Indeed, our new proposals will provide much better for public service pensioners than is achieved by all but the best of private sector pension schemes.

10. We recognise that there are very many public service pensioners who, notwithstanding the increase they have received under past Pensioners (Increase) Acts, still have pensions with a purchasing power less than when they were originally awarded. Merely to keep pace with changes in the cost of living since April 1969 would leave these people at a permanent disadvantage. Nor does it meet this point to bring all the pre-1956 pensions up to the current rate for 1956 pensioners. There are many who retired after 1956 whose current rate of pension does not fully compensate them for the rise in the cost of living even up to April 1969. We therefore introduced as a special once-for-all measure, that at the time of the first 2 yearly review those pensions which had not recovered their original purchasing power as at April 1969 will receive whatever
whatever increase is necessary to bring them up to that point, in addition to the increase to match the rise in the cost of living between April 1969 and April 1971. In this way, we shall be able to ensure that pensions are fully protected against the effects of inflation, and that no one qualified by age to receive pensions increase will have a pension worth less in purchasing power than it was when it was first awarded.

11. While what I have said may fall some little way short of the full aspirations of your Council, I hope that you will agree that this guarantee of inflation proofing, which means that however long ago a pension was awarded its real value will be maintained, represents a major improvement in the position of public service pensioners."
**CIVIL SERVICE**

**DATE OF RETIREMENT**

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**TABLE 1**

**Clerical Officer**

1. Basic Pension
   - 1948: 220
   - 1950: 227
   - 1952: 252
   - 1954: 284
   - 1956: 311
   - 1958: 360
   - 1960: 393
   - 1962: 425
   - 1964: 463
   - 1966: 508
   - 1968: 543

2. As increased to date
   - 1948: 491
   - 1950: 476
   - 1952: 481
   - 1954: 489
   - 1956: 493
   - 1958: 501
   - 1960: 490
   - 1962: 486
   - 1964: 491
   - 1966: 518
   - 1968: 543

3. Levelling up to 1956 (Manifesto pledge)
   - 1948: 493
   - 1950: 493
   - 1952: 493
   - 1954: 493
   - 1956: 493
   - 1958: 501
   - 1960: 490
   - 1962: 486
   - 1964: 491
   - 1966: 518
   - 1968: 543

4. Maintenance of purchasing power
   - 1948: 479
   - 1950: 467
   - 1952: 435
   - 1954: 467
   - 1956: 467
   - 1958: 505
   - 1960: 544
   - 1962: 545
   - 1964: 564
   - 1966: 558
   - 1968: 566

5. % increase in Retail Prices Index to mid-March 1969
   - 1948: 117.9
   - 1950: 105.9
   - 1952: 72.8
   - 1954: 64.5
   - 1956: 50.1
   - 1958: 40.4
   - 1960: 38.3
   - 1962: 28.2
   - 1964: 21.8
   - 1966: 11.8
   - 1968: 4.2

6. % increase under P(I) Acts
   - 1948: 123
   - 1950: 110
   - 1952: 91
   - 1954: 72
   - 1956: 59
   - 1958: 39
   - 1960: 25
   - 1962: 14
   - 1964: 6
   - 1966: 2
   - 1968: -
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**Table 2**

**Woman Certified Teacher in the Provinces**

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<tr>
<th>1. Basic Pension</th>
<th>204</th>
<th>217</th>
<th>237</th>
<th>259</th>
<th>313</th>
<th>387</th>
<th>453</th>
<th>531</th>
<th>612</th>
<th>675</th>
<th>725</th>
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<td>2. As increased to date</td>
<td>483</td>
<td>457</td>
<td>460</td>
<td>466</td>
<td>496</td>
<td>537</td>
<td>564</td>
<td>508</td>
<td>649</td>
<td>689</td>
<td>725</td>
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<tr>
<td>3. Levelling up to 1956 (Manifesto pledge)</td>
<td>496</td>
<td>496</td>
<td>496</td>
<td>496</td>
<td>496</td>
<td>537</td>
<td>564</td>
<td>508</td>
<td>649</td>
<td>689</td>
<td>725</td>
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<tr>
<td>5. % increase in Retail Prices Index to mid-March 1969</td>
<td>117.9</td>
<td>105.9</td>
<td>72.8</td>
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<td>50.1</td>
<td>40.4</td>
<td>38.3</td>
<td>28.2</td>
<td>21.8</td>
<td>11.8</td>
<td>4.2</td>
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<tr>
<td>6. % increase under P(I) Acts</td>
<td>137</td>
<td>111</td>
<td>94</td>
<td>80</td>
<td>58</td>
<td>39</td>
<td>24</td>
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**TABLE 3**

Local Government Officer: A & P Grade 5

1. Basic Pension   | * 488 | 502 | 514 | 559 | 633 | 683 | 734 | 786 | 851 | 915 |

2. As increased to date | **973** | 931 | 863 | 866 | 869 | 848 | 839 | 833 | 868 | 915 |

3. Levelling up to 1936 (Manifesto pledge) | **973** | 931 | 866 | 866 | 869 | 848 | 839 | 833 | 868 | 915 |

4. Maintenance of purchasing power | 1005 | 867 | 846 | 839 | 889 | 945 | 941 | 957 | 951 | 953 |

5. % increase in Retail Prices Index to mid-March 1969 | 105.9 | **72.8** | 64.5 | 50.1 | 40.4 | 38.3 | 28.2 | 21.8 | 11.8 | 4.2 |

6. % increase under P(I) Acts | 99 | 85 | 68 | 55 | 37 | 24 | 14 | 6 | 2 | - |

*No examples of retirements before those shown above are readily available.*
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<td>1. Basic Pension</td>
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<td>500</td>
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<td></td>
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<td>625</td>
<td>700</td>
<td>750</td>
<td>805</td>
<td>975</td>
<td>1045</td>
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<tr>
<td>2. As increased to date</td>
<td>943</td>
<td>944</td>
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<td></td>
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<td>988</td>
<td>905</td>
<td>882</td>
<td>887</td>
<td>1014</td>
<td>1045</td>
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<tr>
<td>3. Levelling up to 1956 (Manifesto pledge)</td>
<td>988</td>
<td>988</td>
<td></td>
<td></td>
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<td>988</td>
<td>905</td>
<td>882</td>
<td>887</td>
<td>1014</td>
<td>1045</td>
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<tr>
<td>4. Maintenance of purchasing power</td>
<td>1115</td>
<td>1030</td>
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<td></td>
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<td>938</td>
<td>968</td>
<td>962</td>
<td>980</td>
<td>1090</td>
<td>1089</td>
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<td>5. % increase in Retail Prices Index to mid-March 1969</td>
<td>134.8</td>
<td>105.9</td>
<td></td>
<td></td>
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<td>50.1</td>
<td>38.3</td>
<td>28.2</td>
<td>21.8</td>
<td>11.8</td>
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<tr>
<td>6. % increase under P(I) Acts</td>
<td>99</td>
<td>89</td>
<td></td>
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<td>58</td>
<td>29</td>
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<td>10</td>
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27 July 1970

CABINET

ELECTRICITY AND STEEL PRICES

Memorandum by the Minister of Technology

At their meeting on 21 July (CM(70) 7th Conclusions, Minute 7) the Cabinet invited me to bring forward for consideration the consequential effects of higher coal prices on the charges for electricity and steel.

2. About four fifths of the coal price increase whatever its level will fall on the British Steel Corporation (BSC) and the Electricity Boards. This means that to get the benefits of the increase for the economy and the Exchequer those Boards must be allowed to pass it on - otherwise we get the adverse publicity merely for the sake of a transfer of burdens within the public sector. The consequential increases are not an additional burden on consumers - it is through them and not directly that any coal price increase will be made effective.

THE PROPOSALS

3. I have now received proposals as follows:-

(a) The Electricity Council propose that from 1 October the area boards should increase prices by around 0.15d per unit (about 7 per cent) on all sales except to those large consumers whose tariffs or contracts provide for prices to vary automatically with coal prices. This increase would raise £20 million in 1970-71 and rather more than £50 million in a full year. It is designed to recover the cost of a 12½ per cent increase in the price of electricity coal and also the unrecovered costs of the last two coal price increases.

(b) The BSC propose simultaneously with the increase in the price of the coal to raise the prices of steel products by varying amounts equivalent in total to about 1½ per cent on turnover. The increases which would raise £10 million in 1970-71 and £18 million in a full year would be sufficient to cover an increase of 12½ per cent in the price of coal, but no more.
ELECTRICITY

4. The last general increase in electricity prices was in September 1967. Since then costs have risen by £116 million made up as follows:-

- Higher fuel costs: £51 million
- Higher salaries: £25 million
- Higher interest charges: £20 million
- Other increases (e.g. rates): £20 million

5. Of the higher fuel costs about £37 million is attributable to the last two coal price increases - £15 million of this has already been recovered from large consumers whose prices automatically reflect changes in coal prices. £16 million of a further coal price increase of 12 1/2 per cent would be recovered in the same way. The proposed increase relates only to the consumers - mainly commercial and domestic - who are not covered by these arrangements. Without it there would be a growing distortion in the tariff at the expense of the industrial consumer.

6. The electricity industry has done much to absorb cost increases by improved operating efficiency and productivity bargains. But inevitably financial results have been affected. In 1969-70 the Electricity Boards in England and Wales earned a return gross of interest of 6.4 per cent against the financial objective for the current quinquennium of 7 per cent - a short fall of £30 million. A coal price increase of say 12 1/2 per cent (costing the boards £43 million in a full year) would, together with the effects of other cost and revenue changes, mean a short fall this year on the financial objective of about £80 million with revenues barely sufficient to cover interest charges.

7. There is undoubtedly scope for further cost saving in the electricity industry - for example there are big delays in commissioning new plant and the availability of plant when commissioned is too low. But this will take time and in the meantime there is a gap of about £80 million to be covered this year even without allowing for the possibility of a wage increase in the autumn. Against this the benefit this year from the proposed increase would be only £20 million.

8. If the increase were limited to that consequential on the proposed coal price increase it would need to be 0.07d per unit for a 12 1/2 per cent increase and 0.055d for a 10 per cent increase. But to limit the electricity increase would reduce revenue by £28 million a year, with consequences for borrowing and taxation; would leave the industry even further short of its modest financial objective; and would perpetuate the distortion mentioned in paragraph 5. There is, therefore, a powerful case on financial grounds for recovering past price increases with the present one. This could be presented as a coherent whole related to the coal price increase and it would probably avoid the need for a further nationwide price increase until 1971-72. (Some of the Boards in a relatively weak financial position might not be able to wait beyond next April.)
STEEL

9. The BSC made losses in their first two financial years of £42 million in total after paying interest but before paying any dividend at all on their £700 million of public dividend capital. They made a small profit of £10 million in the six months to March 1970 and had expected a profit of over £100 million in the current financial year. They have recently told me that they now expect this figure to be reduced to £35 million. This deterioration is due not to cost increases, which were allowed for when steel prices were generally increased in January, but to operational shortcomings, in particular commissioning delays and labour difficulties.

10. A profit of £35 million will be barely sufficient to cover the BSC's accumulated losses - so after four years of nationalisation the country will have received no dividends on public dividend capital despite the fact that we have had a world steel boom. There is thus a case for a substantial general increase in British steel prices which would bring them more into line with those in western Europe. The BSC are not proposing such an increase - they rightly take the view that it is their responsibility to solve the operating problems which have depressed their financial results. They do say that they cannot reasonably be expected to absorb an increase in coal prices which at 12½ per cent would cost them £18 million in a full year and for which they made no provision in their earlier assessments.

PROCEDURE

11. The industries have to consult their statutory Consumer Councils before implementing price proposals. Unless there are early references the price increases could not be implemented on the proposed dates: every month's delay would cost £4½ million in the case of electricity and £1½ million in the case of steel. I think we should let them go ahead on the clear understanding that the references are without prejudice to the Government's position and that we will be looking at the position as a whole when we get the reports of the Consumer Councils.

CONCLUSIONS

12. There is clearly much room to improve the performance of the electricity industry and the BSC. Major long term questions are involved including the effects of the previous Government's fuel policy on the electricity industry's costs, difficulties with the nuclear power programme and the future structure of the BSC. I have put work in hand on all these matters and will report to my colleagues as soon as possible. In the meantime I am satisfied that the BSC ought to increase prices to the extent needed to cover the increase in the price of coking coal which we approve and that the Electricity Boards should increase unit charges by 0.15d, assuming coal prices are increased by 10-12½ per cent. The case on industrial grounds is strong; and the increases will benefit the revenue of the boards by £30 million in 1970-71 and by £70 million in a full year, which is important for taxation.
13. Accordingly I ask my colleagues to agree that I should tell the Electricity Council and the BSC that we have no objection to their putting their price proposals to the Consumer Councils on a conditional basis but that the Government will wish to consider the position as a whole in the light of the reports of the Councils.

G R

Ministry of Technology SW1

27 July 1970
CABINET

INDUSTRIAL RELATIONS LEGISLATION

Memorandum by the Secretary of State for Employment and Productivity

1. The Government is committed to introduce legislation in the present Session of Parliament to secure fundamental reforms in the legal framework regulating industrial relations. It is essential that the Bill should have its Second Reading before Christmas so that the Committee stage can at the latest begin immediately after the Christmas Recess. In view of the length and complexity of the Bill and the need for conducting the process of consultation without indecent haste this is an extremely tight timetable - and there is dangerously little margin for delay. If we are to keep to the timetable detailed instructions must be in the hands of the Parliamentary draftsmen by early September - even if we subsequently need to make changes following consultations with the Confederation of British Industry (CBI) and the Trades Union Congress, which cannot be held before September. I therefore have to secure now my colleagues' agreement to the main principles which the legislation should embody, and to those proposals which are likely to be most controversial.

2. Whilst in Opposition, we agreed and published in "Fair Deal at Work" detailed proposals for action. We have therefore a firm basis on which to proceed (for convenience, the main conclusions set out in pages 53 and 64 of "Fair Deal at Work" are reproduced at Appendix I). Since "Fair Deal" was published we have examined additional proposals which are incorporated in this paper. Most of these are logical extensions of the "Fair Deal" policy; or have been foreshadowed in proposals I made to the Party Conference last October.

NEW SYSTEM OF INDUSTRIAL COURTS

3. As "Fair Deal at Work" proposed, we should so far as practicable produce a comprehensive measure which supersedes or incorporates the greater part of existing legislation, much of which is sadly out of date. To administer the new law, we need to establish a more suitable structure of labour law jurisdictions, based on a new Industrial Court (which should be of
broadly similar status to the Restrictive Practices Court) and on the existing industrial tribunals (which I envisage would become the lower level of the new system). To deal with matters connected with trade union rules and with complaints about their application by trade union members the Industrial Court should be complemented by a Registrar of Trade Unions and Employers' Associations. These bodies should, between them, deal with proceedings brought under the various provisions of the legislation; and in addition any other cases arising out of industrial action in the circumstances of a trade dispute. As "Fair Deal at Work" pointed out, it was desirable to bring industrial relations cases within a new industrial court system with specially designed procedures for dealing with industrial relations matters.

4. The establishment of a new system of labour law will inevitably confront us with a number of large problems: for example, the relationship between the new Industrial Court and the existing courts; the manning of the Industrial Court and the Industrial Tribunals; the rules governing the procedure of these bodies; and the staging of the introduction of the new jurisdiction. On all these matters I shall of course consult with the Lord Chancellor. In this memorandum, however, I have not dealt in detail with this range of problems; and have attempted to limit my proposals to the substance of the policy and law which will fall to the new Industrial Court system to administer.

ENFORCEABILITY OF COLLECTIVE AGREEMENTS

5. We proposed in "Fair Deal at Work" that in future there should be a presumption that all collective agreements should be enforceable in the courts unless the parties agreed otherwise. We agreed also that the legislation should establish limits to the damages which could be awarded in respect of a breach of a collective agreement. Although, initially, few collective agreements will be made enforceable - because most trade union officials at present oppose this concept - there is no doubt that we should nonetheless proceed with it because of its beneficial long-term consequences. (This would of course involve amending Section 4 of the Trade Union Act 1871 in so far as this prevents the legal enforcement of an agreement between a trade union and an employers' association).

6. This general change of approach will, however, take some time before it is effective in the most difficult plants and industries. For this reason I am satisfied that we need to go one step further. After consideration on the available alternatives, I propose that we should implement a proposal which was first developed in the Donovan Commission's Report. The Donovan Commission envisaged a procedure under which procedure agreements in selected firms with particularly unhappy experience of unconstitutional stoppages might be examined by, and made legally binding on the recommendation of, the Commission on Industrial Relations (CIR). In this way existing good procedure agreements could where necessary be made legally binding upon a union and employer alike in much the same way
that, under the Terms and Conditions of Employment Act 1959 substantive terms can be made binding upon an employer who fails to observe the conditions established by collective agreement in his industry. I would recommend that we follow the Donovan Commission's lead, with some modifications. We might provide that the Secretary of State or one of the parties to a procedural agreement could apply to have the agreement made legally enforceable. The CIR would examine the procedure agreement and consider (a) whether it was suitable for enforcement and (b) what modifications or improvement should be made. It would then be for the Industrial Court to determine, in the light of criteria relating to the firm's record of industrial disputes, whether the agreement - as awarded by the CIR - should be made enforceable. If the agreement was made enforceable, the parties to the agreement could then take proceedings for breach of the agreement in the Industrial Court.

7. I would expect this approach to the question of enforceable collective agreements gradually to encourage responsible attitudes and behaviour towards collective agreements. This approach should be supplemented and reinforced by the work of my Department in registering company procedure agreements and pressing firms to review these agreements and bargaining arrangements. We have at present no powers to require companies to register their agreements with the Department, and the Donovan Commission proposed that the Government should take such powers. Although our experience has been that companies are prepared to co-operate fully in the voluntary registration scheme which is now in operation, I think it important for presentational reasons that we should be able to invoke reserve powers to require employers to register their collective agreements with my Department.

TRADE UNION IMMUNITIES FROM LEGAL ACTION

8. Under the present law, any trade union is protected from actions in tort whether or not acting in furtherance of a trade dispute. In addition, any individual (as well as any union) is protected both from actions for criminal and civil conspiracy, and from actions for inducing the breach of a contract of employment, provided he is acting in pursuance of a trade dispute. These immunities from legal action date from a period when trade unions were relatively weak and when it was generally felt that the principles of common law militated against effective trade union action in support of legitimate objectives. Neither of these conditions prevails today, which is why in "Fair Deal at Work" we proposed to reform in a fundamental way the immunities which trade unions and trade unionists enjoy.

9. The substance of what we proposed in "Fair Deal at Work" was that:

a. The immunity enjoyed by trade unions from actions in tort under Section 4(l) of the 1906 Act should be confined (i) to acts committed in contemplation or furtherance of a trade dispute and (ii) to registered unions. This would mean, on the one hand, that all trade unions could be sued for such civil wrongs which do not
arise in the context of industrial disputes. More important, it would mean under the existing law, that unregistered bodies (including unions whose rules had failed to meet the statutory requirements) would only enjoy very limited immunities from actions in tort, even when taking industrial action.

b. The protection from civil action for inducing the breach of a contract of employment (afforded by Section 3 of the 1906 Act) should be confined to a registered trade union (or its officials). This change was recommended - albeit by a narrow majority - of the Donovan Commission. This would have the effect that, in a strike which involved breaches of a contract of employment, anyone who induced the strikers to break their contracts of employment would be liable to a civil action.

c. Industrial action should cease to enjoy immunity in certain specified kinds of strike (inter-union, in support of an unlawful closed shop, blacking etc: I discuss these categories in more detail below).

10. My colleagues are, of course, already aware of the extent to which these changes will be represented by the trade unions as a severe blow to the freedom of individuals and work groups to protect their interests by collective action. They will be the more deeply resented because, in this country, the typical strike is unofficial and unofficial strike leaders would therefore be unprotected. Whilst it is probable that few employers would exercise the right to go to law against unofficial strike leaders (in part because they would not be confident of being able to collect worthwhile damages and in part because they would not want to increase the bitterness of industrial relations by legal action), there would always be the fear of legal reprisal.

11. These consequences - as to which I wish to leave my colleagues in no doubt - are, of course, implicit in the policy to which we are already committed. But they have caused me to give much further thought to the way in which they may be presented to the best advantage and so as to secure their full long-term benefit. As a result, I think it wise to outline 2 consequences about which we need to be clear. They relate to 2 topics:

   (a) Enforcement.

   (b) "Court" machinery.

ENFORCEMENT

12. Any attempt (along the lines visualised in "Fair Deal") to make legal remedies available in respect of unlawful industrial action - and these are, of course, a consequence of our proposal to restrict existing immunities - must involve the use of one or other or both of two sanctions:

   (a) An award of damages.
An order - in conventional legal jargon known as an injunction - ordering a body or person to cease and desist from certain actions.

An award of damages is normally enforceable against the assets of the person or body concerned - and cannot (since the implementation of the recommendations of the Payne Committee) normally involve imprisonment. But non-compliance with an "injunction" can, and ordinarily does, involve the possible sanction of imprisonment at the end of the road. These are both, of course, civil (and not criminal) remedies. But this may seem to be a distinction without much difference for the man who ultimately ends up "inside".

13. I must make clear to my colleagues that our proposals, taken as a whole, must involve an increase in the number of situations in which these sanctions will be available. They have of course been available in the growing number of trade dispute cases that have recently been before the Courts; but, in practice, these sanctions have not had to be invoked. One must hope that this will continue to be the case. But the hope is virtually bound to be belied. And my colleagues will wish to appreciate this point.

14. Two important consequences, I suggest, must follow from this. First, we must make clear that there is to be no scope for such legal sanctions being invoked against individual strikers - so as to confront the Courts with the impossible task of "locking up hundreds of men". Second, we should strive to be clear and consistent in our repudiation of the criminal law in this field.

15. The first of these conclusions means that we must ensure that the right of the individual - and of individuals acting together - to withdraw their labour is expressly preserved. The right to strike, as such, must be spelt out. Any sanction, by way of damages or "injunction", should be available only against those who seek to call or induce continuance of an unlawful strike. There would, however, be no legal sanctions against any person simply for participating in a strike.

16. Where individual employees come out on strike without notice and in breach of their contracts of employment, they will continue - as at present - to run the risk that their employer may discipline them or take action for breach of contract. But, I repeat, I envisage no additional sanctions against employees as such.

17. The second conclusion which I propose - the express exclusion of the criminal law - would be in keeping with this approach. I propose that we should reconsider the necessity for retaining the existing criminal sanctions against strikers contained in the 1875 Conspiracy and Protection of Property Act (as amended in the Electricity Supply Act, 1919. Sections 4 and 5 of the 1875 Act make it a criminal offence for an employee maliciously to break his contract, knowing that a consequence of his doing
so will be to deprive the inhabitants of a city of gas, water or electricity or to endanger human life or cause serious bodily injury. These Sections have scarcely ever been invoked; and it is nowadays unrealistic to suppose that they could or would prevent a strike of public utility workers. Insofar as such workers "wilfully and maliciously" act on their own volition so as to cause damage there are suitable remedies available. But to retain a special criminal sanction against strikers who, in solidarity with their fellows, obey a strike call seems to me to be valueless and out of line with our general approach. The proposal made in this paragraph was, I should say, rejected by the Shadow Cabinet when we were in Opposition. I suggest that it deserves reconsideration at this stage in the context of our proposals as a whole.

COURT STRUCTURE

18. As explained in paragraphs 3 and 4 above (and as foreshadowed in "Fair Deal") I visualise that all proceedings brought under our proposed legislation will be dealt with by our new Structure of Industrial Courts and Tribunals.

19. The logical consequence of this is that such proceedings should be excluded from the ordinary courts. This means that the present immunities of trade unions (and others concerned in industrial disputes) from ordinary civil action in the ordinary courts would, in practice, be extended. And the special remedies (taking account of the ways in which we propose to limit existing immunities) would be available only in the industrial courts. Trade unions and industrial disputes would, therefore, appear in the ordinary courts - civil or criminal - only in respect of:

a. Torts not committed in the context of a trade dispute.

b. Prosecutions arising out of illegal picketing (undue violence and so on).

HOW THE RESTRICTED IMMUNITIES WOULD WORK IN PRACTICE

20. The consequence of all this is that in the industrial courts trade unions (and others engaged in industrial action) would enjoy the immunities restricted as proposed in "Fair Deal" (and as summarised in paragraph 9 above). It is to the substance of these immunities that I now turn:

a. The immunities (whether derived from Section 3 or Section 4 of the 1906 Act) would be confined to:

i. acts committed in furtherance of a trade dispute; and

ii. to registered unions.
b. Industrial action in the following circumstances should not be protected but should be subject to restraint by the Industrial Court, whether or not it involves the breach of contracts of employment and whether or not it is officially supported:

i. Action calculated or intended to disrupt an established bargaining structure (for example, a strike in pursuance of an inter-union recognition dispute - see paragraph 28 below).

ii. Action unlawfully to procure the dismissal of employees.

iii. Action in certain circumstances to enforce the reinstatement of an employee (see paragraph 45 below).

iv. Action to secure an unlawful closed shop (see paragraph 45 below).

v. Inducement of the breach of a contract other than a contract of employment (this will cover the secondary boycott and inducing the breach of an enforceable collective agreement).

21. On reflection, I consider that we should not be justified in removing the protection enjoyed by registered trade unions which conduct sympathetic strikes and strikes about job demarcation and job assignment. The sympathetic strike is often a reasonable means of assisting fellow unionists in a dispute in which the sympathetic strikers have a direct or indirect interest; and there would be very great difficulty in distinguishing such strikes from other sympathetic strikes. Besides this, the sympathetic lock-out, which is difficult to distinguish from the sympathetic strike, constitutes one of the most effective means by which the members of an employers' association can protect themselves against a union which adopts the "whipsaw" technique of striking one employer after another in order to secure concessions.

22. Strikes about demarcation and job assignment, on the other hand, are clearly directed to furthering the interests of the strikers (for example, their employment security). However much one deplores the way in which these interests are defended, I think it would be unreasonable to outlaw demarcation disputes unless we were prepared to provide a suitable alternative means for resolving these disputes. In other words, we should choose between leaving unions the freedom to strike over demarcation and job assignment disputes and setting up some form of statutory machinery for dealing with "who does what" questions. In the last few years the problem of demarcation has been lessened by amalgamations and agreements between unions in the shipbuilding industry. For that reason, and because of the difficulties of identifying clearly demarcation questions from other grievances where there is a strike, I reach the conclusion that we should not legislate to outlaw strikes over job demarcation.
THE TRADE DISPUTES ACT, 1965

23. Following the House of Lords decision in Rookes v Barnard the Labour Government passed the 1965 Trade Disputes Act to protect from legal action anyone who threatened to induce a breach of contract of employment (or who threatened to break his own contract). We opposed that measure largely because it seemed intended to protect trade unionists who forced their employer by threat of strike action to dismiss an employee who had fallen out with his union, in the context of trade union law at that time - and now - this Act seemed a license to victimise nonconformist employees; and we promised to repeal it when we returned to power. Clearly we should do so; and in addition provide the necessary safeguards to protect non-union members from dismissal on that account. I propose, however, in amending the immunities accorded to trade unions and individuals to make it clear that in the area of protected and lawful industrial action a threat to call a strike should be treated no differently from the actual calling of a strike. In other words, we should reverse that part of the House of Lords judgment which appears most questionable, without at the same time leaving open the possibility of victimisation of employees.

BARGAINING STRUCTURE, TRADE UNION RECOGNITION AND THE DUTY TO BARGAIN

24. In "Fair Deal at Work" (pages ?,7 and 44) we proposed that employers should have a legal duty to negotiate with a trade union where a majority of the employees wish the trade union to represent them. We envisaged that legislation would establish appropriate machinery to give effect to this principle. This machinery should also:

a. assist in establishing a rational bargaining structure and preventing or reducing inter-union conflict and friction;

and

b. deter industrial action directed towards undermining an established bargaining arrangement.

25. The real problem we have to confront is not simply that of forcing recalcitrant employers to come to terms with unions which enjoy a large measure of support, but of establishing a sound and secure bargaining structure which enables the parties to develop a satisfactory relationship with one another. Recognition disputes not infrequently involve inter-union differences or rivalry which, if not satisfactorily resolved, can prevent the development of a satisfactory bargaining structure. This is why, in "Fair Deal at Work", we proposed to remove immunity from inter-union disputes. In itself, however, this was no more than a negative step. Where we propose to curtail the right to strike, we should also aim to provide an alternative way of resolving the dispute. This consideration has prompted me to develop the scheme outlined in "Fair Deal" to make it suitable for resolving both recognition disputes involving a single union and the more complex problems of the multi-union dispute situation.
26. What I propose is broadly as follows. Any dispute about recognition and/or bargaining structure could be referred by any of the parties involved (or by the Secretary of State) for investigation by the CIR. The CIR would decide what was the most acceptable and viable bargaining unit (or units). In the light of the degree of support among the employees in the unit for the union or unions concerned, the CIR would recommend which union(s) - if any - should have bargaining rights. The CIR would report its conclusions to the parties and to the Industrial Court; and if the recommended union(s) wished to secure statutory force for the CIR's recommendations, it would apply to the Industrial Court to have those recommendations made binding. A ballot would then be arranged to allow the employees in the bargaining unit to decide whether they wished to accept the CIR's recommendations - or whether they preferred not to have the recommended unions as their bargaining agent. If a majority of the employees endorsed the recommendations, the Industrial Court would bring them into force; and the employer (and unions) concerned would then be under a legal obligation to bargain seriously about the terms and conditions of employment within the bargaining unit.

27. As suggested in "Fair Deal at Work", if an employer refused to negotiate seriously the union would be entitled unilaterally to refer a substantive claim for binding arbitration; a remedy which secures for the union some of the benefits it would have obtained through negotiation. Besides making unnecessary any recourse to the courts for traditional legal remedies, this sanction should also minimise litigation about what is "serious" negotiation - which has caused a great deal of trouble in the United States of America. I also expect that, because of the more active role we envisage the Department's conciliation service playing in the future, the recourse to unilateral arbitration would be infrequent. Conciliation officers would almost certainly be involved in trying to resolve disputes about either an employer's or a union's willingness to bargain seriously; and this should materially assist in getting such disputes settled without unilateral arbitration being necessary.

28. There would be an obligation on the union side to maintain the integrity of established bargaining arrangements. If any union (whether recognised or not) sought to undermine the bargaining structure by industrial action (for example, calling or threatening a strike to force an employer to bargain with an unrecognised union) the employer would be entitled to seek a restraining order from the Industrial Court, or to sue for damages.

29. I believe that this procedure for the resolution of disputes about trade union recognition would be fair and workable. It would not force unwilling unions into bargaining partnership, but would exert considerable pressure for them to compose their differences in order to secure statutory bargaining rights. It would provide for the CIR's proposals to be confirmed by ballot among the employees - and there would also be provision after a reasonable period for employees subsequently to seek a further ballot to challenge a union's right to continue to represent them. And it would
give the employer reasonable backing in resisting pressure from unrecognised unions attempting to secure recognition by use of industrial power. I do not, however, expect that this statutory procedure would be invoked in so large a number of situations so as to pose a threat to relatively stable bargaining relationships. Recourse to the CIR and the Industrial Court should be necessary only in the more serious disputes.

NATIONAL EMERGENCY STRIKES

30. The proposals in "Fair Deal at Work" envisaged that the Secretary of State would have power, in disputes which might endanger the national interest, to apply to the Industrial Court for an injunction to prevent a strike or lock-out. The maximum period during which an injunction could be enforced was to be not less than 60 days; and the Minister was to have power to order a secret ballot to ascertain whether employees were prepared to accept the employer's last offer.

31. I am in no doubt that there would be advantage in some situations in being able to invoke a procedure on these lines. But I am equally sure that if such a procedure was used with any frequency it would soon lose its value. I suggest therefore that we should provide very strict criteria which would limit the award of an injunction to really serious situations where there was a genuine threat to national security or the livelihood of the community. It was partly for this reason that "Fair Deal" proposed that the Secretary of State's application for an injunction should have to be endorsed by the Industrial Court. I am sure this is a necessary control on the use of this reserve power. I do not think, however, we need maintain the "Fair Deal" proposals for referring disputes for compulsory arbitration; or that before an injunction can be granted, the Secretary of State should invariably be obliged to set up and receive a report from, a Board of Inquiry. In some cases, the appointment of such a Board could seriously delay the use of the emergency powers; and, in most cases, the essential facts and issues in the dispute will certainly be known to the Secretary of State as a result of reports from Departmental conciliation officers. The Secretary of State would of course retain this existing power (which could be exercised at any stage) to set up a Court of Inquiry to make recommendations which might provide the basis for resolving the dispute.

32. I propose that the maximum period an injunction could be in force should be 60 days. There would of course always be the possibility of discharging the injunction earlier if the dispute were settled or if there were no longer a threat to the community.

33. The order made by the Industrial Court would prevent named unions, officials or individuals from calling or supporting a strike by employees in the company or sector covered by the order. If orders of this kind were disobeyed, it would be for the Attorney-General to take proceedings against those concerned before the Industrial Court. We must squarely face up to the possibility that, in the last resort, it might be necessary to commit to prison anyone who refused to comply with any cash penalty.
34. Since this injunction, like any other order of the Industrial Court, would apply only to those who might call a strike, there would be no sanctions against any person for participating in a strike. I believe it is presentationally of the utmost importance that we resist the temptation to seek remedies against strikers as such.

STRIKE BALLOTS

35. We envisaged in "Fair Deal at Work" that the final stage of the national emergency procedure would generally be the holding of a ballot on the employer's last offer. I am now disposed to the view that provision for a strike ballot should not be related directly and exclusively to disputes in which the national emergency injunction procedure is invoked. Indeed, I believe it would probably be wrong to require a ballot as the inevitable final stage in the national emergency procedure: there is a large risk that the parties would simply build the ballot into their tactical manoeuvring and not get down to serious negotiation until the ballot had duly confirmed - as it almost certainly would - that the employees did not accept the employer's "last offer". I see some advantage, on the other hand, in giving the Secretary of State a general power - not limited to national emergencies - to demand a ballot before a major strike is called, if there is reason to suppose that the views of union members involved have not been adequately canvassed.

36. I recognise that the discretionary ballot is a weapon that can easily misfire; that it is seen by unions as a potential threat to their authority and leadership; and that often trade union officers and executive committees are more cautious and responsible than many of their members. On the other hand, there are occasions when union members get little opportunity to make their views known and when a small number of militants are able to force a strike when a majority of employees is anxious not to come out. On balance, I think the advantages of a discretionary power to call a ballot outweigh the risks which the possession and use of such a power entails. And I therefore suggest we provide for a reserve power of this kind - which would be exercised on the authority of the Industrial Court.

REGISTRATION AND RULES OF TRADE UNIONS AND EMPLOYERS' ASSOCIATIONS

37. The main purpose of the proposals in "Fair Deal at Work" concerning the registration of trade unions were to:

a. protect individuals from injustice and ensure that the rules of trade unions were clear, just and democratic;

b. ensure that immunities from legal action were accorded only to responsible bodies; and

c. ensure that rules conformed to the public interest.

Our proposals were broadly similar to those recommended in the Donovan Commission's Report, and envisaged that combinations would be required to register with a new Registrar of Trade Unions, in order to
secure corporate status and the privileges currently attaching to a trade union. We also envisaged that the Registrar would be required to ensure that rules of registered trade unions met certain standards; and that there should be provision for an independent body to hear complaints from trade union members that they had been unfairly treated by their union.

38. There can be no doubt that, as "Fair Deal at Work" proposed, the registration of trade unions and their rules will be an essential element in our legislation and we should proceed with our proposals. It is possible that some unions might prefer to remain unregistered bodies without the status and privileges of a union rather than be forced to change their rules (perhaps because they were reasonably confident that no employer would risk a legal confrontation by pressing a case against a powerful unregistered body). I would nonetheless recommend that we maintain the view expressed in "Fair Deal" that voluntary registration, with incentives, is the most satisfactory means of ensuring that union rules are subjected to public supervision.

39. In presenting our proposals for trade union (and employers' association) registration, it will be important to emphasise that the registrar's role is closer to that of "ombudsman" than "policeman". He will have to satisfy himself that the rules of a trade union are fair and reasonable (for example, regarding conditions for membership); and he will also have responsibility for investigating complaints from union members of unfair treatment and alleged breaches of rules by union officials. His main function will, in short, be to protect union members; and in carrying out that function he will sometimes have to investigate cases where he has reason to suspect that a union has broken its rules even though no member has submitted a complaint. It should, however, be no part of the Registrar's job to ensure that unions discipline members who strike in defiance of union instructions: if a union failed to use its "best endeavours" to restrain its members from striking, it must be for the employer to seek appropriate remedy through an action for breach of a collective agreement.

SAFEGUARDS AGAINST UNFAIR DISMISSALS

40. In "Fair Deal at Work" we proposed that there should be a right of appeal against unfair dismissal. The Industrial Relations Bill published by the previous Administration provided, in broad terms, that where any dismissal could not be justified on grounds of the employee's conduct or capability, and did not result from redundancy, it should be judged unfair; and the employer would be ordered either to reinstate the employee or to pay him suitable compensation. This goes rather further than we envisaged but it may be politically difficult for us to withdraw so far from the proposals that have been placed on the table since we published "Fair Deal". I would, however, propose several changes from the Labour Government's proposals, notably:

i. We should simplify the concept of unfair dismissal by not giving an exhaustive list of reasons for which dismissal is not permitted.
ii. As emphasised in "Fair Deal" an Industrial Tribunal should be able to recommend, but not require, reinstatement; only an award of compensation should be enforceable.

iii. We should provide for conciliation, probably by officers of the Department of Employment and Productivity, as a means of resolving complaints of unfair dismissal before they go to an Industrial Tribunal.

41. The last proposal, apart from being justified in principle, should substantially help to reduce what could be an impossible burden on the Industrial Tribunal and the Industrial Court. In addition, I think that we should review the level of compensation proposed in the Labour Government's Bill, which provided for a maximum award of £1,920. While the Tribunal will need some kind of formula to work to in assessing compensation, I am not clear that the formula chosen by the previous Administration which was based on length of service and level of earnings (in many respects similar to that applied to redundancy payments) is a suitable one for determining compensation for unfair dismissal. It may be that the case for a high level of compensation, and, more generally, for very strong and elaborate safeguards against unfair dismissal would be weakened if we substantially increased the statutory entitlement to notice of termination, a question I come to in the next paragraph.

AMENDMENTS TO THE CONTRACTS OF EMPLOYMENT ACT

42. "Fair Deal at Work" proposed that the statutory notice of termination under the 1963 Act should be extended for long service employees. I think that we should go ahead with this proposal. As a way of affording protection and relief to the employee whose employment is terminated, it may be preferable to emphasise entitlement to notice rather than elaborate safeguards against unfair dismissal. I am not yet ready to make detailed proposals about the extended periods of notice.

43. In our policy statements we have proposed that the written statement of terms and conditions of employment required under the 1963 Act should also set out basic rights and obligations. I think that we should pursue this proposal, with particular emphasis on grievance procedure, i.e., those aspects of procedure agreements that most affect the individual employee.

RIGHT TO BECOME TO A TRADE UNION AND REGULATION OF THE CLOSED SHOP

44. I propose that we should establish, as we have proposed, the right of any employee to belong to an independent trade union. Any attempt by an employer to infringe this right, either by preventing or deterring an employee from belonging to a union or by penalising him for so doing, would then entitle the employee to take proceedings before an Industrial Tribunal.
45. I also intend that our legislation should establish the right not to belong to a trade union. This would be achieved, first, by making unlawful the pre-entry closed shop — though it might prove desirable to except from this general provision pre-entry closed shop agreements in one or two sectors where they can be justified e.g., on grounds of maintaining reasonable security of employment. Secondly, we need to safeguard the position of employees and conscientious objectors when a union shop (or "agency shop" as I should prefer to call it) agreement is reached. The safeguards were set out in "Fair Deal" as follows:

a. If the employer or a sufficient percentage of employees so request, a ballot should be held to determine whether employees wish an agency shop to be operated.

b. No employee and no conscientious objector should be required to join a union where there is an agency shop, though the agreement between the union and the employer may properly stipulate that an employee who refused to join the union should make appropriate payment in lieu of union dues.

c. No one expelled from a union which enjoys an agency shop agreement with an employer should on that account alone be dismissed by the employer unless expulsion resulted from failure to pay union dues.

d. Any union or union official or group of workers which brought pressure to bear on an employer to dismiss an employee in contravention of (b) and (c) above should be liable to legal action.

THE COMMISSION ON INDUSTRIAL RELATIONS AND THE EXISTING INDUSTRIAL COURT

46. I would propose that we should continue in existence the CIR (which is at present established under Royal Warrant). The CIR will be primarily concerned to assist employers and unions in the (voluntary) reform of industrial relations procedures and institutions. It would, however, also have important duties in relation to trade union recognition (as suggested in paragraph 26 above) and in relation to the selective enforcement of procedure agreements (as suggested in paragraph 6 above). These functions would make it undesirable for the CIR to remain as a Royal Commission. I propose therefore that the Commission should be established on a statutory basis, so that its powers will be approved by Parliament and it can be abolished only by an amending statute.

47. The existing Industrial Court was established under the Industrial Courts Act 1919 as a body to which disputes about the terms and conditions of employment could be referred for voluntary arbitration. Since 1919, the Court has been charged with a number of more specific arbitration functions, notably under the Terms and Conditions of Employment Act. The
Court has therefore a long experience in resolving "interest" disputes; it is not in the true sense a judicial body interpreting the law or collective agreements. Although, therefore, it might be a tidy solution to transfer its functions to the proposed new Industrial Court, I think this would add to rather than reduce the confusion between judicial and arbitration functions. I consider therefore that the balance of advantage lies in retaining the Court in being but under a new name which would clearly distinguish its special function as an arbitral body.

CODE OF INDUSTRIAL RELATIONS PRACTICE

48. We envisaged in "Fair Deal at Work" that a Code of Industrial Relations Practice would be scheduled to the proposed Industrial Relations Act. I now think it would be unrealistic to attempt to append a Code of Practice to the Bill. This is so for several reasons: the overriding need to enact legislation this Session; the need to consult widely and thoroughly on the contents of the Code; and the possibility that the Code may have to be prepared successively in different sections. Instead I would propose that we take powers in the Bill to establish one or more Codes of Practice covering, among others, the subjects touched on in "Fair Deal at Work". This approach would have the advantage both of enabling us to produce more detailed recommendations and to publish different Codes at different times (and, where desirable, revise Codes as necessary). There may, too, be room for treating different Codes in different ways; so the statutory provision should be left as flexible as possible to allow for the possibility that the Secretary of State could, with Parliamentary approval, impose certain additional requirements through the Codes of Practice.

DISCLOSURE OF INFORMATION BY EMPLOYERS

49. One subject which might be treated in a Code of Practice is the disclosure of information necessary for bargaining purposes, and for keeping employees well-informed about the operations of their companies. I propose that we should, as we suggested in Opposition, require registered companies to disclose to employees the same amount of information as they are required to give their shareholders. This would be a minimum requirement, however, and there is a strong case for providing a body of advice about the extent to which employers should take into their confidence the union officials with whom they negotiate. One of the features of the Labour Government's Industrial Relations Bill was that it included a statutory requirement on employers to disclose to trade union bargaining representatives, information which was necessary to enable the union to participate effectively in negotiation. I should like to consider how far a variation on this idea could not be incorporated in our Bill.
AMENDMENTS TO THE WAGES COUNCILS ACT

50. The Labour Government's Bill included a small number of amendments to the Wages Councils Act, the main effect of which was to encourage the development and voluntary collective bargaining in Wages Council industries. These amendments were on lines recommended by the Donovan Commission; and I think they would make a small, but useful, contribution to the development of the voluntarist approach in industrial relations.

CONCLUSION

51. My colleagues will be very well aware that the various proposals outlined above, which follow very closely what was foreshadowed in "Fair Deal at Work", will be extremely unpopular with the trade unions, without at the same time causing great jubilation among the ranks of the employers. The attitude of the CBI in the past has generally been to deprecate proposals which leave to employers the major responsibility for taking legal action against unions and their officials. For that reason, they will not find attractive many of the proposals outlined above which, though they establish new and narrower limits to legitimate industrial action, usually leave it to the employer to see that the unions do not take action outside the limits. The trade unions, for their part, may have hoped that "Fair Deal at Work" represented simply a bargaining position from which we would quickly shift once in power. They will be doubly disappointed, therefore, to find that on such matters as trade union immunities, trade union registration and even on recognition disputes, we are sticking steadfastly to the principles laid down in "Fair Deal at Work".

52. I seek my colleagues' agreement to the proposals in this memorandum; and Cabinet authority to instruct the Parliamentary draftsman to prepare legislation on these lines. In view of the urgency with which these proposals have had to be prepared and will need to be developed, I would be grateful, too, for authority to modify them with the agreement of the Ministerial Committee on Industrial Relations.

R C

Department of Employment and Productivity, SW1

28 July 1970
"Fair Deal at Work" -

Summary of recommendations

Our proposals are, we believe, as much in the interests of wage-earners and responsible trade unions as of employers and the public at large. We summarise below the key points:

1. There would be a new Registrar of Trade Unions and Employers' Associations with powers to ensure that their rules are just; secure fair democratic control; and are not contrary to the public interest. Registration would be a compulsory condition for any organisation wanting to have the full legal status of a 'trade union'.

2. Trade unions would have corporate legal status - subject only to immunity against civil proceedings when acting in furtherance of a lawful trade dispute which is not in breach of agreement.

3. There would be special industrial courts comprising legally-qualified chairmen sitting with 'lay' members from both sides of industry.

4. A Code of Practice would lay down basic standards and guidelines by which methods and behaviour of management, employees and trade unions could be assessed.

5. Freely-negotiated agreements between employers and unions would become legally binding except in so far as the parties agreed to exclude certain provisions. This would put collective agreements on a par with other forms of contract: no more and no less.

6. Employers would have a legal duty to recognise, and negotiate with, registered trade unions where a majority of the employees concerned wanted union representation.
(7) Employees would have a new statutory right of appeal against alleged unjust dismissal and against disciplinary or coercive action by a union - or from any other quarter.

(8) Strikes to enforce a closed shop, inter-union disputes, 'sympathetic' strikes or lock-outs, and strikes called for the predominant purpose of preventing management from engaging certain types of labour would no longer be protected 'trade disputes'. The 1965 Trade Disputes Act would be repealed and earlier Acts defining 'trade disputes' amended.

(9) There would be new safeguards for individuals which must be guaranteed in any agreements to operate a union shop.

(10) The Minister of Labour would be given four new powers:

First, to exercise the conciliation functions of the Ministry at his own discretion, instead of having to await a request from one party to a dispute.

Second, to refer a dispute to the Industrial Court for arbitration, where the national interest was seriously threatened.

Third, to apply to the Industrial Court for an injunction to delay or stop a strike or lock-out for a stipulated period while further negotiations take place.

Fourth, (before this period expires) to arrange for a secret ballot to be conducted among the workpeople in dispute to ensure that the real wishes of the majority are known.

The Minister could, however, only exercise the last three powers after receiving the report of a fact-finding Board of Inquiry.
CABINET

SCOTTISH ELECTRICITY PRICES

Memorandum by the Secretary of State for Scotland

1. At their meeting on 21 July (GM(70) 7th Conclusions, Minute 7) the Cabinet invited the Minister of Technology to bring forward for consideration the consequential effects of higher coal prices on the charges for electricity and steel. The memorandum (CF(70) 29) circulated by the Minister deals with the effects on electricity prices in England and Wales and on steel prices. This memorandum dealt with the effects on electricity prices in Scotland.

2. The Scottish Electricity Boards recently announced price increases averaging 7 per cent to take effect from 14 July in the South of Scotland and 1 August in the North. These increases were the minimum necessary to cope with the increases in coal prices made by the National Coal Board earlier this year. They were based on the assumption that the Board’s full programme of conversion to oil-firing proceeded as planned.

3. Any further increase in the price of Scottish coal would necessitate early increases in Scottish electricity prices, even if the Boards’ full oil conversion programme were approved immediately. A 12½ per cent increase in the coal price would add £4-£5 million (or 3 per cent) to the annual costs of the Scottish Electricity Boards. The Boards’ records of increased productivity have been very good, but there is no prospect of their absorbing cost increases of this order. Unless charges were increased the South of Scotland Board would be in deficit on revenue account for a second successive year, and the Board is therefore contemplating a coal surcharge on all consumers, except industrial consumers (whose tariffs are linked to coal prices), of 0.07d. per unit, which represents an increase of between 4 and 5 per cent. I would wish to bring this into operation by 1 October. The North Board, which is less dependent on coal, will nevertheless also have to reconsider its charges.

4. If a second round of coal and electricity price increases takes place this year pressure will certainly grow for Government subsidies to the National Coal Board to reduce the cost of electricity coal in Scotland. There is a special Scottish problem here. In Scotland coal constitutes a much larger, and more rapidly rising, proportion of the electricity industry’s fuel than in England and Wales. Regional differentiation of
coal prices, for commercial reasons related to costs of production, is very difficult to reconcile with a denial of freedom to the Scottish Electricity Boards to act commercially by proceeding with their programme of conversion of power stations to oil-firing, which would also lighten the burden of electricity costs to Scottish industry. If commercial forces are not to be allowed to operate to this extent, there is a strong argument for supporting Scottish coal production from the Exchequer rather than by imposing a burden on Scottish electricity consumers.

CONCLUSION

5. As electricity tariffs have just recently been increased in Scotland, the further necessary increase will be seen to be directly related to coal prices. Industrial and other consumers will almost certainly demand either that the Scottish Electricity Boards should be permitted to undertake a thoroughgoing conversion policy (which would be very damaging to the mining industry in Scotland) or that prices for electricity coal in Scotland should be adjusted, whether by removal of the regional differential or by a direct subsidy. I would regard this as a reasonable demand and I must press that the alternative possibilities of removing the regional differential or directly subsidising electricity coal in Scotland should be sympathetically examined by the Minister of Technology.

G T C C

Scottish Office SW1

28 July 1970
CABINET

FINANCIAL ASSISTANCE TO HARLAND AND WOLFF LIMITED

Memorandum by the Secretary of State for the Home Department and the Minister of Technology

1. We are bringing this matter before our colleagues both because of its importance in terms of industrial policy and for its impact on the current situation in Northern Ireland. Substantial public expenditure is also involved.

PRESENT FINANCIAL POSITION

2. The Belfast company of Harland and Wolff have requested urgent financial assistance, through the Shipbuilding Industry Board (SIB), to enable them to carry on business. Information provided by the company recently showed that:

   i. They have a bank overdraft of £2½ million which is fully used. There is no possibility of an increase.

   ii. They owe suppliers about £2½ million of which nearly £2 million is owed in Northern Ireland. £2 million is the maximum amount of suppliers' credit they would generally think prudent.

   iii. They expect, even with the most advantageous financial arrangements, to lose money on shipbuilding and engine building up to 1974. A profit forecast for 1974 is based on a £2.5 million profit from future orders (i.e., orders not yet taken or contemplated).

   iv. On the same basis, they expect an adverse cash flow of £8½ million during the whole of the period up to 1974. £7 million of this adverse flow is in the period 1970-71.

   v. By the end of this week they claim they will be unable to meet wages payments.

3. The figures supplied by the company support the view that £1½ million is needed almost immediately to meet essential payments, and that a further sum of between £1 million and £2 million will be required by the end of the year if they are to stay in business.

LONGER TERM NEEDS

5. The company are preparing a detailed submission for the SIB on their longer term needs and hope to submit it in August. Present information indicates a need for at least a further £4 million early next year, but there are a number of ways in which the company's longer term cash position might be eased.

6. Cost escalation and inflation have made unprofitable past fixed price contracts taken by Harland and Wolff (in common with other shipbuilders). The company have already renegotiated contracts for two ships for delivery in 1973 and are seeking to renegotiate prices for two large tankers for Esso and two for Onassis. There are ship repair facilities (at London, Liverpool and Belfast) which are at present breaking even and which might well have a price on the market to help meet future losses. These facilities are not essential to the shipbuilding operation. The company have negotiated with the Northern Ireland Government a moratorium on capital repayments on their 1966 loan due for repayment between 1970 and 1975. They also hope to negotiate a deferment of interest payments amounting to £245,000 per annum.

7. We are therefore not required for the moment to reach a final view on the amount of any further assistance needed beyond an initial sum of up to £3 1/2 million, but if we agree to this initial sum it must be in the knowledge that (as explained below) we are accepting a liability for an even larger amount. The method of meeting this longer term requirement can be pursued with the SIB, the Northern Ireland Government and the company. There could be a case for putting the onus of legislation to provide money on the Northern Ireland Government though we should in practice have to put them in funds to meet this requirement.

THE SIB VIEW

8. The SIB hold the view that the company should have a viable future given proper direction, good management and co-operation from the workers. SIB think it undesirable that the substantial public investment in the new building dock and other capital facilities (£15 million) should be jeopardised by a temporary shortage of working capital or that the company with its shipbuilding potential should go out of business. They have therefore recommended that the assistance needed should be made available under the provisions of the Shipbuilding Industry Act. They point out, however, that they are unable to provide more than £3 1/2 million as a grant under Section 3 of the Act given the funds remaining available to them for this purpose and other calls. Moreover, they cannot under the terms of the Act provide loans to the company for working capital purposes nor, since they may only take equity in circumstances where they can give loans, could they provide funds by way of subscription for shares.
9. The SIB therefore seeks the approval of the Minister of Technology for a grant of £3.5 million. They make it clear, however, that they recommend this assistance only if they are assured that the further assistance needed would also be made available by the Government.

10. With a £3.5 million grant by the SIB grants under Section 3 of the Shipbuilding Industry Act will exceed the Ministry of Technology vote provision for 1970-71. However, as loans under Section 4 will be less than forecast overall, shipbuilding industry expenditure will not exceed the Public Expenditure Survey Committee (PESC) forecast. A supplementary estimate to cover this and expenditure in respect of other shipbuilding companies may be necessary next spring.

THE BEAGLE IMPLICATIONS

11. In considering the implications of the Beagle case in February, 1970, the Law Officers set down the principle, under the Companies Act, that Government should never knowingly be a party to an insolvent company continuing to carry on business unless either there was a reasonable prospect that by doing so, or by some other means, it would become solvent again, or that Government was satisfied that such funds as may be needed to pay creditors would become available from its own resources or otherwise. In further deliberations with the Law Officers, it was made clear that they meant by "become solvent again" that the company would "become solvent again and remain so for a reasonable period".

12. Following information from the Chairman and the Financial Director of Harland and Wolff there is no doubt that the company is now insolvent. It is the Treasury Solicitor's opinion that, by agreeing to provide money, whether through the SIB or otherwise, the Government will be committed to providing not only what is immediately required to make the company solvent, but also whatever further assistance may be needed to keep the company solvent for a reasonable period. Given that we know on present forecasts that the company is not expected to break even financially again till 1974, "a reasonable period" may have to be interpreted as up to that time. If this is not done, and the company subsequently goes into liquidation, the Government may well be obliged to ensure that the company's creditors are met in full.

ALTERNATIVE TO ASSISTANCE

13. Any assistance to the company at this time from public funds will carry with it the obligations set out in the preceding paragraph. The alternative of refusing assistance would inevitably lead to the collapse of the company and its eventual liquidation.

14. Liquidation need not mean that shipbuilding at Belfast would entirely cease with the immediate and permanent loss of some 9,500 jobs in the Belfast shipyard. Arrangements would likely be made for the completion of ships in the yard where construction was at an advanced stage. Moreover,
the building dock and its facilities (even incomplete) provide a shipbuilding facility unequalled elsewhere in this country and possibly in Europe. With the present world demand for ships and a world shortage of capacity for early delivery, such a facility is likely to prove attractive to other shipbuilders. Similarly both the engine building and ship repair facilities at Belfast may find a purchaser.

15. The effect on other industries in Northern Ireland might also be only moderate. Harland and Wolff say that only about 15 per cent of their trade creditors represent Northern Ireland interests.

16. Against this must be set the profound shock which the collapse of this company would have on Northern Ireland opinion at the present difficult time. No-one can really foresee what the effect of a liquidation would be. Even if shipbuilding survived at Belfast there would be a period of uncertainty and some additional unemployment. With an overall unemployment rate in Belfast of 4.5 per cent of the working population (and a higher male unemployment rate) the loss of even half the jobs in the yard would increase the unemployment rate in Belfast to 6.5 per cent or more. In the present disturbed state of Northern Ireland, this could have an inflammatory effect.

FUTURE POSSIBILITIES

17. The company have improved their management information systems and have introduced a new management structure. They are also seeking a new Managing Director. They are concentrating on building bulk carriers and large tankers and are rationalising their facilities and abandoning those not required for this purpose. The new steel working facilities have not yet been completed but are expected to be fully operational by the beginning of next year. The company are seeking to introduce shift working. All of these developments should enable them to increase substantially their steel work productivity. No further contracts will be taken without the inclusion of a price variation (i.e. escalation) clause. They hope to return to profitability by 1973 or 1974 (although if their cash flow deficit continues at the current rate beyond 1971 we would expect to see far bigger losses than those forecast).

18. Two prominent foreign shipowners (Fred Olsen and Onassis) have shown interest in acquiring the shipbuilding facilities and operating them with the help of management expertise from abroad. British shipbuilders may also be interested in acquiring the facilities, particularly the new building dock. These possibilities are being actively explored. None of them is sufficiently advanced to avoid the immediate need to supply £1.5 million to the company. It is likely that any possible arrangements here would require public funds (such as the clearing of the company's debts first) to get them off the ground.
CONCLUSIONS AND RECOMMENDATIONS

19. The following main conclusions may be drawn:

i. Harland and Wolff are insolvent. They require £1½ million immediately, up to £2 million by the end of the year, and up to £4 million in 1971 if they are to stay in business. They cannot raise the money required immediately from the market or from sale of assets.

ii. For 1970 to 1973 inclusive they forecast company losses of £10 million which could be greater if the expected improvement in company performance is not achieved.

iii. The Shipbuilding Industry Board has recommended a grant of £3½ million under the Shipbuilding Industry Act - provided the Government undertakes to make available any further sums required to keep the company viable. Moreover, given the insolvency of the company, the Government is in no position under the Companies Act to meet immediate needs only without an obligation to meet the further needs of the company as foreseen.

iv. The alternative is liquidation of the company to release it from its present financial burdens. With the present situation in Northern Ireland this is politically unacceptable.

v. In all of this, we need to recognise that this will be an industrial rescue operation having similar features to the Upper Clyde Shipbuilding (UCS) and Cammell Laird (i.e., public funds to meet losses). It carries with it, unless handled very skilfully, the same potential demoralisation of the rest of the industry as similar operations under the previous Government. It will need to be cast within the wider framework of aid to Northern Ireland at a troubled time without undue emphasis on employment alone which is precisely the case for UCS and Cammell Laird. (There is not much difference between the unemployment rates for Belfast and Glasgow).

20. We therefore recommend to our colleagues that:

i. The Minister of Technology should approve the SIB's recommendation of a grant of £3½ million for Harland and Wolff but should ask for only £1½ million to be made available immediately on the understanding, however, that the Government accepts that the financial needs of the company as foreseen will have to be met by one means or another.

ii. Departments concerned should consider how best to meet the future financial requirements of the company given the limitations on SIB funds and the desirability of associating this aid as closely as possible with the Northern Ireland Government.
iii. The Ministry of Technology should actively explore, in consultation with other interested Departments, how best to reinforce the management and improve the future financial performance of Harland and Wolff (including the possibility of association with foreign interests) and the conditions to be attached to any further help from public funds.

R M
GR

Home Office SW1

27 July 1970
In their yard at Belfast the company build and repair ships, manufacture ships engines and electrical equipment and fabricate structural steelwork. The company also has shiprepair yards at Liverpool, Southampton and London.

2. The company's shipbuilding activities are concentrated in a large new building dock with associated steel facilities, still in course of construction, and an adjacent yard building on berths. For ship repair the company has the exclusive use of a large modern graving dock owned by the Belfast Harbour Commissioners.

3. The company employs about 7,500 operatives and 2,000 staff at Belfast and about 700, 1,400 and 750 (including staff) at Liverpool, Southampton and London respectively.

4. Currently on order with the company are six giant (250,000 dwt) tankers and eight bulk carriers for delivery between now and 1973. The company also has orders for 23 slow speed diesel engines and three steam turbines, also for delivery between now and 1973.

5. In September 1966 the company was saved from collapse by a £3.5 million loan at 7 per cent from the Northern Ireland Government. The loan is to be repaid by instalments between now and 1975.

6. Between mid-1968 and end 1969 the company received a total of £8 million in loans from the SIB at rates varying between 7¼% and 9½% to be interest free until end 1970, with interest capitalised between then and 1975 and repayable thereafter in equal instalments over 33 years. The loan was a contribution towards the cost of building the new dock and facilities. Most of the rest of the cost of the dock and facilities was met from Northern Ireland Government Investment Grants (about £6½m.).

7. In 1967 the SIB promised £910,000 in grants as a contribution to the cost of building two giant tankers for Esso. To date £455,000 has been paid.

8. In 1969 the SIB promised up to £1.56 million in grants as a contribution to the losses and expenses arising out of the reorganisation of the yard around the new facilities. To date £1.2 million has been paid.

9. In all, Harland and Wolff can be said to have had £19m. so far from public funds for their purposes; a promise of nearly £1m. to come; and a current plea for up to £7m. or so.

27th July 1970
CABINET

THE 'SECOND FORCE' AIRLINE

Memorandum by the President of the Board of Trade

1. We are committed to encouraging the creation of a 'second force' independent airline. The only way in which such an airline can be created in the foreseeable future is through the purchase of British United Airways (BUA) by Caledonia. For this purpose it will be necessary to secure some transfer of routes from the two Air Corporations.

2. Caledonia are confident that they can finance the purchase of BUA (which involves a total commitment of about £32 million) provided they can satisfy their existing and potential shareholders that routes will be transferred to the new airline on a scale sufficient to yield an additional profit before tax of about £800,000 in 1971, or a rather higher figure if the routes are not transferred until 1972 or later. This would mean the transfer of routes yielding a revenue of about £5-£6 million in 1971, compared with British Overseas Airways Corporation's (BOAC's) total current revenue of £200 million. BOAC's profits are likely to be affected to a greater extent proportionately as total profitability looks like declining over the next few years.

3. The Chairmen of the Air Corporations have made it clear that their Boards will not agree voluntarily to give up routes. It follows that if the Government wants to go ahead it will have to use its statutory powers. Once these powers are invoked there is no reason to believe the Corporations will not co-operate.

4. The Law Officers have confirmed that I have powers the exercise of which would result in a transfer of routes from BOAC (and perhaps, to a lesser extent, from British European Airways) to Caledonia. There is no precedent for the use of these powers for this purpose and we may be criticised for bypassing the ordinary Air Transport Licensing Board licensing machinery. The ordinary control over Nationalised Industry investment will enable me to stop BOAC acquiring BUA.
5. The situation has been deteriorating rapidly recently in two respects following leaks to the Press. BUA has been losing traffic since people are unwilling to book on an airline which might cease operations soon. The morale of BUA employees is poor and there are signs that it may worsen rapidly. Secondly, in pursuit of a claim for complete parity of pay and conditions with the Air Corporations, the unions have threatened to go on strike from 3 August.

6. After an exceptionally profitable year in 1969 BUA's profits have sharply declined and these could become substantial losses if current union demands for parity of pay and conditions with BOAC were conceded. In this situation Sir Nicholas Cayzer might possibly decide to put BUA into liquidation or to concede complete parity in order to avoid a strike. If BUA were to be liquidated there would be no certainty that Caledonian would be able to pick up the routes that would enable them to operate as a 'second force' airline, since all airlines would be able to bid and the ordinary long drawn out licensing procedures would have to be used. Moreover, in these circumstances, it would be much more difficult to justify the transfer of some BOAC routes to Caledonian. In the resulting confusion and uncertainty Caledonian's present financial backers would almost certainly lose interest.

7. If on the other hand BUA continued operations but conceded complete parity the new airline resulting from a Caledonian purchase of BUA would have greater difficulty in attaining the profitability it needs to attract continuing financial support. This concession might make the purchase of BUA impossible for any airline except BOAC. Caledonian would be prepared to pay comparable rates for comparable work, which in effect means parity in basic rates but intend to negotiate with the unions to secure comparable productivity agreements (and possibly some staging of their increased commitments). This is a different matter from proceeding to immediate parity in pay irrespective of productivity.

8. In the face of these risks I felt that I ought to make an immediate statement on the lines of the attached draft. When the Ministerial Committee on Economic Policy considered this statement on 27 July there was general agreement that the Government should pursue vigorously its policy of fostering the 'second force' in spite of strong opposition from the trade unions and the Air Corporations. It was, however, essential to get both the timing and the context of the statement right. The statement, if issued too early, might prejudice the chances of securing an early agreement to end the dock strike. It would also be a great pity if the 'second force' airline came to be publicly suspect as one run on cheap labour, or if its launching coincided with strikes in BUA and in the Air Corporations. If at all possible the BUA pay claim should be publicly seen to be a quite different issue from the 'second force'.

9.
9. As matters are developing, however, I consider that we should not delay our statement any longer, because of the risk that precipitate action by Sir Nicholas Cayzer or by the BUA employees might jeopardise the whole concept of a "second force" airline. I understand that Caledonian are prepared to move quickly to comparable pay for comparable work and there is evidence to suggest that, faced with a Government decision, the unions would negotiate with Caledonian as the prospective employer and would not force an immediate strike on 3 August. There have been suggestions that Mr Clive Jenkins might call out Air Corporation staff to prevent a transfer of routes. I do not think we can concede to such pressures.

10. It is also for consideration whether I should be authorised to say that the Government will not, in any event, be prepared to approve a purchase of BUA by BOAC. Sir Nicholas Cayzer has continued to hope that, in the last analysis, the Government would approve such a purchase and for this reason he has not been as forthcoming as he might have been in his dealings with Caledonian. A statement on these lines would force both him and the unions to be more realistic in their dealings with Caledonian. On the other hand, the hope of an ultimate sale to BOAC may be one of the factors which will deter him from going into liquidation. I think we may have to make such a statement, but I would prefer to hold it until it is shown to be essential.

CONCLUSION

11. I therefore seek the agreement of my colleagues to the issue of the attached statement without more delay. It would have the effect of enabling Caledonian at once to start negotiation with BUA and to start discussing with the unions as the prospective "second force" airline the standards of pay and productivity which should apply. I should like further to have authority to tell Sir Nicholas Cayzer, should this prove necessary, that the Government do not intend to permit BOAC to purchase BUA if the deal with Caledonian falls through. We must be clear, however, that this could increase the possibility that BUA might be put into liquidation, with the consequences outlined above. We may have to take this risk.

MAC N

Board of Trade SW1

28 July 1970
CIVIL AVIATION

A SECOND FORCE INDEPENDENT AIRLINE

The Government wish the private sector of the civil aviation industry to be given the opportunity to form by amalgamation a "second force" airline that would fill the role of second flag carrier on major international routes as well as sustaining extensive charter services. Such an airline, combining the resources and skills of British United and Caledonian, could provide a powerful additional source of airline management and innovation; its existence would permit the licensing of a second British carrier on those international routes such as the North Atlantic where this should increase the traffic carried by British airlines; and it could serve those domestic routes where it was desirable to offer the public a choice of airlines.

2. The Government accept that such a new airline, if it can measure up to its task, should be given preference over other operators in the licensing of new scheduled routes that would contribute to a viable route network, in the licensing of a second carrier on existing scheduled routes or in any sector of the market (such as long-haul inclusive tour charters) where there may for a time be room for only a limited number of operators. Where the new airline is licensed to serve a domestic route jointly with another operator, they accept the need progressively to relax any restrictions on the frequency of services. They also accept that some exceptional transfer of routes from the public sector - and possibly some rationalisation, including an exchange of routes - will be necessary in the initial stages, though not as a continuing process, if the new airline is to have a sufficient basis at the outset.

3. BOAC's total revenue is about £200m. Forecasts of inter-continental traffic point to an expansion of about 14% a year up to 1975. Against the background of such growth a modest transfer of routes from BOAC to the new airline, representing something of the order of 2½% or 3% of their current annual revenue, would have small impact on BOAC's continuing expansion. Both revenue and employment will continue to increase. The return on the public investment need not be unduly impaired so long as the routes transferred from either Corporation did not significantly affect the overall efficiency of their operations.

4. The Air Corporations must remain our principal flag carriers bearing as in the past the main weight of this country's civil aviation effort. The routes to be transferred must therefore be so chosen as to combine with the overall national interest the maximum benefit to the viability of the new airline with the least impact on the Air Corporations.
5. The civil aviation industry has been subject to much uncertainty since 1967 and it is desirable that matters should be brought to a conclusion without further delay. The Government are considering legislation based on the recommendations of the Edwards Committee for changes in the regulatory machinery; they accept, in principle, the establishment of a licensing authority whose decisions will be governed by a formal statement of policy which will reflect, among other things, the considerations set out in this White Paper. However, the Government consider it important that the new airline should be formed as quickly as possible and should have new routes to serve by the summer of 1971. They would prefer the arrangements for the transfer of routes to be made through normal licensing procedures after discussion with the airlines concerned. They accept, however, that the Air Corporations will not willingly give up even a small sector of their routes. If necessary, therefore, pending the new legislation, they will be prepared to use their powers under Section 3(5) of the Air Corporations Act 1967 and under Section 1(3) of the Civil Aviation (Licensing) Act 1960, to ensure that the intended outcome is not unduly delayed.

6. It is in the best interests of the industry and of the country that a stable and viable solution should be found quickly. In particular it is in the interests of those who work in BUA and in Caledonian that the new flag carrier should have the strength and opportunities that will enable it to move quickly towards terms and conditions of employment comparable with those offered by the Air Corporations for comparable work.
29 July 1970

CABINET

THE OPEN UNIVERSITY

Memorandum by the Secretary of State for Education and Science

40,000 applications have already been received by the Open University. The University has been sifting these over the last few months. They intend, and, as things now stand, they are entirely free, to send letters of acceptance to 25,000 students from 1 August. There has been no consultation about a departure from this commitment with the Chancellor (Lord Crowther), the Vice-Chancellor (Dr. Walter Perry), the Treasurer (Sir Paul Chambers) or with any other member of the Council. We simply could not defend the abrupt termination of the University's existence, without consultation, by Saturday. Quite apart from this political consideration the unit cost per graduate produced in this new institution could well be substantially less than in the orthodox university system. Its successful development could offer significant offsetting savings in higher education costs in later years. It has aroused considerable interest and expectation and attracted a surprisingly wide range of influential support. We would be open to further criticism, within the educational world and from public opinion at large, if we decided to write off £8 million or more of public expenditure as nugatory without allowing any opportunity of proving that the claims made for the Open University can be substantiated and without any firm evidence that they cannot. I must therefore ask my colleagues to reject its immediate termination.

2. I would not rule out the alternative of reducing the first intake from 25,000 to 15,000 students, although I should point out that the saving in 1971 would be negligible and less than £2 million in 1973-74. Moreover, to pursue this course would have undesirable consequences. The decision would have to be announced before Saturday 1 August. The first of the Government cuts would thus be seen to be falling on education. This would lend credence to the recent Press speculation that other cuts totalling £100 million in the education sector were to follow. For two or three months I could neither confirm nor deny these rumours. I believe we should have trouble out of all proportion to the money saved.
3. I invite my colleagues to consider leaving the intake for this year at 25,000. The Government would need to do nothing publicly at this stage. But I would put the Open University on notice that later this year (when the Government proposals as a whole on reductions in public expenditure had been announced) I would want to consider with them:

(i) the rate of entry for the second and succeeding years;

(ii) the need to provide for students under 21 who might otherwise go to other, more costly forms of higher education;

(iii) the prospects of them increasing their own revenue with a view to limiting the continuing level of public financial support. I believe this approach could be made to save almost as much as the alternative while avoiding the immediate political difficulties.

4. I propose that we should follow the course outlined in the last paragraph. But if my colleagues wanted a gesture towards economy, despite the political consequences which I am sure would follow, I would be prepared to accept an entry of 15,000 students this year.

M H T

Department of Education and Science

29 July 1970
CABINET

FUTURE OF THE OPEN UNIVERSITY

Memorandum by the Secretary of State for Education and Science

1. At the meeting of Cabinet held on 23 July 1970 the Chief Secretary and I were asked i. to examine urgently the possibility of reducing the first intake of students to the Open University, and report the position at the meeting on 30 July; and ii. to consider the possibility of making additional reductions in expenditure, and report the outcome by mid-September.

2. We had a discussion on 20 July, and considered the following alternative possibilities, viz:

   a. Keeping the annual intake at 25,000, the figure announced in March this year.

   b. Reducing the annual intake from 25,000 to 15,000.

We were unable to reach agreement, and we considered a third possibility viz. immediate closure of the Open University.

3. The financial implications of each of these three courses are set out in Appendix A, which is agreed between us. As we were unable to reach agreement we have set out our respective views in separate papers.

4. With reference to the possibility of making additional reductions in expenditure with a view to reporting by mid-September, we came to the conclusion that this possibility, other than on the basis of intake, was slight, and for present purposes not worth pursuing.

M H T

Department of Education and Science W1

29 July 1970
Financial Implications

(a) Student intake of 25,000

Grant-in-aid already notified by the Department to the University, covering the period up to December 1973, is as follows:

\[
\begin{array}{lcccc}
\text{£m} & \text{£m} & \text{£m} & \text{£m} \\
\hline
\text{Recurrent} & 4 & 6.2 & 7.3 & 8.4 \\
\text{Capital} & 1.8 & 0.8 & - & - \\
\text{Total} & 5.8 & 7.0 & 7.3 & 8.4 \\
\end{array}
\]

(The grant for 1970-71 has been authorised by Parliament, but not the grant for later years).

To this would be added further capital expenditure over this period estimated at £4.2m. Peak expenditure would not be reached until 1975, and might then level out at about £11m a year.

(b) Student intake of 15,000

The basic costs of the University remain virtually constant, whatever the number of students, and a reduction in the annual intake will not produce a proportionate reduction in total expenditure. A reduction to 15,000 could produce an annual saving of about £1.6m by 1973-74, £1.9m in 1974-75, and more later on. In the first year or two, the real, as distinct from theoretical, savings would be less than £1m, because equipment and course material have already been ordered for 25,000 students.
(c) **Closure of the Open University**

Expenditure to date on the Open University is approximately £3m, but grant-in-aid approved by Parliament for 1968-69 to 1970-71 amounts to nearly £7m.

The University authorities have necessarily undertaken heavy financial commitments which the Government would have to meet either directly or by way of compensation. The main commitments are:

- **(a)** Contract with the BBC;
- **(b)** contracts with the staff;
- **(c)** arrangements and contracts with manufacturers and publishers for producing books and course materials, and
- **(d)** arrangements and contracts with various educational bodies and institutions for the lease of premises to serve as regional centres and local study centres.

If the project were abandoned, it is estimated that a total of £8m or more, including compensation, would have been spent with little to show for it, except buildings on the site, valued at £1.4m.
CABINET

PUBLIC EXPENDITURE REVIEW 1970: 
THE OPEN UNIVERSITY

Memorandum by the Chief Secretary, Treasury

1. In her memorandum (CP(70) 34) the Secretary of State for Education argues that the Open University should proceed as planned. I am unable to agree with this view, for the following reasons:

a. We have always made it clear that we had no commitment to continue the Open University. The late Chancellor of the Exchequer, when in Opposition, said so specifically to the British Broadcasting Corporation when they approached him, and in January 1959 Sir Edward Boyle made a statement opposing the decision by the former Administration to proceed with it at a time when (as now) there were other more important claims on limited resources.

b. It is possible that in due course, by admission of the under-21s, the Open University will be able to contribute significantly, and at much cheaper cost, per graduate, to the problem of accommodating in higher education the huge increase in numbers of students forecast for the next decade. But there is no certainty either that, in the event, the unit costs per successful graduate will be as low as forecast, or that the Open University will in practice provide an acceptable alternative, for any significant number of students, to more conventional forms of higher education. It was certainly not designed as such.

c. I have examined the ways in which the Open University might move towards greater self-sufficiency, but I see little prospect of this. The proposed scale of fees already represents an unusually high percentage of costs; but even a doubling of fees would yield only about £5½ million, taking account of the extra public expenditure which this would impose on local authorities. And I see little prospect of substantial sales of material abroad or to other institutions.
d. I have also considered what would be the effect of a sharply reduced level of student intake. As will be seen from the agreed figures in the annex to the Secretary of State's memorandum, a reduction from 25,000 to 15,000 would yield savings rising to only about £1½ million by 1973-74.

2. As my colleagues know, our goal of drastic reduction in public expenditure and of alleviation of taxation can only be achieved if we rigorously pursue every significant saving available to us. In these circumstances I cannot agree that we should ignore a project which we did not initiate, have never commended, and have never accepted as a commitment; which is completely experimental and uncertain in its effects; and which, at best, can only be of marginal use in the solution of the urgent resource problems which face us in conventional education.

3. I recognise the difficulties, and I agree that it is not worth encountering them for the sake of £1 or £2 million of marginal savings through reduced intake. I do consider, however, that it is worth facing them, despite some nugatory expenditure of about £8 million, for the sake of direct continuing savings which will rise to over £10 million a year in five years' time. I also recognise the difficulty that closure would have to be announced very soon, and in isolation from the general pattern of the other measures which we are examining. But this, in my view, only makes it the more important that the action we announce should be bold enough to show that we mean business. A forthright statement now cancelling the project will no doubt provoke protest and opposition. But it will be taken as a real earnest of our intention to cut and re-fashion public expenditure in accordance with the social, and wider educational, priorities set out in our Manifesto and to secure the reductions in taxation on which our whole economic programme rests.

M V M

Treasury Chambers SW1

29 July 1970
17 August 1970

CABINET

THE CENTRAL CAPABILITY

Note by the Prime Minister

1. My colleagues will be interested to know the progress which has been made in establishing the central capability since the Cabinet considered the outline of the proposal on 16 July. The concept has been further elaborated, as in the attached note; and work is now in hand on preparations for the establishment of the unit and the recruitment of its staff from the various sources on which we must try to draw if the unit is to have the requisite multi-disciplinary character.

2. The creation of a central capability of this kind is, of course, a new departure in government. The description of its functions is necessarily, therefore, provisional at this stage; and it will be some little time before it can take root and find a definite place in the machinery of Whitehall. Nevertheless, I believe that, properly used, it can make a substantial contribution to the process of effective decision-making and to the development of a coherent Government strategy as the basis for the policies of individual Departments. It is essentially interdepartmental in character; and it is intended - and will, I hope, be seen - to be at the service of the Cabinet (and its Committees) as a whole. I ask all Ministers, therefore, to ensure that their Departments give their full co-operation in helping it to come into being and to operate as a fully integrated element in our interdepartmental machinery.

E H

10 Downing Street SW1

17 August 1970
THE CENTRAL CAPABILITY

1. The purposes of the new capability are to assist in identifying issues for collective Ministerial decision, in improving the presentation of policy issues and in strengthening the broad strategic framework within which collective Ministerial decisions should be taken. It will therefore seek systematically to identify problem areas and broad policy options for further Departmental and interdepartmental study, to provide Ministers with a better basis for forming judgments about planning priorities and to enable them to consider what changes, if any, should be made in the strategic objectives of the Government.

2. In order to carry out this task, a new unit will be established in the Cabinet Office, distinct from, but closely linked with, the existing Secretariat. This unit will not duplicate work done by individual Departments or by the Treasury on public expenditure programmes. But, working in close co-operation with Departments, it will seek to reconcile differences in the analysis of interdepartmental problems; to clarify points of significant disagreement between Departments; to identify the real issues for decision and the considerations which should be taken into account in deciding them; to set the issues in the context of the Government's strategy and priorities; and to report to Ministers collectively on an objective and non-Departmental basis. The analytical studies prepared by individual Departments will clearly be a very important element in its work; but it will also be expected to undertake studies of its own and to take the initiative in proposing subjects for further examination.

3. The control and direction of the work of the new unit will rest with a Committee of senior Ministers, under the chairmanship of the Prime Minister, which other Ministers will, of course, be invited to attend when subjects with which they are directly concerned are to be considered. It will be the responsibility of this Committee to approve the unit's programme of work, to determining its priorities and to decide the manner in which its reports on particular questions will best be implemented.
Before we resume our consideration of public expenditure, I would like to remind my colleagues of a number of facts.

a. Repeatedly in Opposition individual Front Bench spokesmen promised to reduce the burden of taxation. Our Election Manifesto, approved by the then Shadow Cabinet, included these words:

"We will concentrate on making progressive and substantial reductions in income tax and surtax. These reductions will be possible because we will cut out unnecessary Government spending and because we will encourage savings ... We will abolish the Selective Employment Tax".

In one of last year's Finance Bill debates, Iain Macleod said this:

"The attitude of the Conservative Party towards SET has always been clear. We intend to abolish it as soon as we can ... nor do we intend to replace it with an employment tax".

That statement received wide publicity.

b. As a measure of our commitments, it is worth bearing in mind that:

i. To cut the standard rate of income tax by 6d would cost £350 million; Is off the standard rate would cost nearly £700 million.

ii. To abolish SET will cost about £600 million.
c. In addition to the above commitments we have given firm undertakings to:

i. Abolish aggregation for minors' income.

ii. Allow interest again for tax relief.

iii. Tax married women's earnings separately from their husbands'.

The fulfilment of these three undertakings will cost at least £50 million in a full year.

d. Owing to the tight liquidity position of companies, we must regard most of the savings from the abolition of investment grants, amounting to about £700 million, as being available only for return to companies in the form of taxation relief, apart perhaps from some part of savings on grants for ships.

e. Our predecessors increased public expenditure as a proportion of the Gross National Product from 43 per cent to 51 per cent. The programmes which they left to us for the future would have involved a further substantial increase in central government tax rates above their present very high level. The best estimates which can now be made, based on the medium-term economic assessment which is carried out by an interdepartmental group of officials, suggest that this would have been more than £300 million by 1974. A corresponding reduction in public expenditure is required merely to prevent a rise in present tax rates. It is only in so far as we achieve economies going beyond this point that we shall create room for tax relief.

f. Since we took office we have already committed ourselves to new public expenditure amounting in 1971-72 to £30 million a year.

2. In the light of these facts, what are the means of fulfilling our Election pledges?

3. We could hope that, with better Government, the economy would grow faster and the tax yield would thereby increase at a faster rate than the growth of public expenditure, thus giving us some elbow-room for tax cuts. But this hope rests, in part at least, on our providing incentives to work and save which are themselves largely dependent on lightening the burden of taxation. It would be an irresponsible gamble to pin our hopes on faster growth as the principal means of cutting taxation. The only safe approach is to assume that significant faster growth will follow the cuts in taxation.
4. There is one further point of psychological importance. The statement on public expenditure which has been promised for this autumn will be a touchstone of our credibility as a Government, both by the general public and, more particularly in the first instance, by the opinion-formers. Furthermore, it is highly unlikely that there will ever be a moment in the lifetime of this Parliament when we shall be in a stronger position to make the sort of drastic cuts which are necessary – and which we led the nation to believe would come with the new Government.

5. Unless we secure reductions in public expenditure on the scale (£1,700 million including investment grants) agreed by the Cabinet last July (CM(70) 8th Conclusions, Minute 6), for which the Chief Secretary has put forward a balanced programme of proposals, we may well find ourselves unable to fulfil our Election pledges.

A B

Treasury Chambers SW1

9 September 1970
1. At Cabinet on 23 July (CM(70) 8th Conclusions, Minute 6) I was invited to discuss with the Ministers concerned proposals for a net reduction in public expenditure of £1,700 million by 1974-75; and to make detailed recommendations to the Cabinet by mid-September. I have regarded the Cabinet remit as precluding me at this stage from dealing with proposals for adding to expenditure, except to the extent that savings entail this expenditure.

2. In the Annex to this paper I have summarised the results of my discussions. Leaving aside investment grants - I assume that little or nothing will be left from the savings on these for reducing personal taxation after dealing with the problem of company liquidity - I have discussed with my colleagues proposals totalling roughly £1,100-£1,400 million in 1974-75 for which the target agreed by the Cabinet is a little over £1,000 million; and some £400-£500 million in 1971-72, towards the "start of several hundred million pounds" in that year.

3. In outline the present position is as follows:
Proposals discussed:

<table>
<thead>
<tr>
<th></th>
<th>a. Agreed</th>
<th>b. Agreed</th>
<th>c. Still not to pursue at this stage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1971-72</td>
<td>1974-75</td>
<td></td>
</tr>
<tr>
<td><strong>Assistance to industry</strong></td>
<td>116</td>
<td>260-285</td>
<td>260-285</td>
</tr>
<tr>
<td><strong>Research councils etc.</strong></td>
<td>2</td>
<td>5</td>
<td></td>
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<tr>
<td><strong>Roads and transport</strong></td>
<td>14</td>
<td>45</td>
<td>2</td>
</tr>
<tr>
<td><strong>Social services</strong></td>
<td>213-305</td>
<td>614-921</td>
<td>64-139</td>
</tr>
<tr>
<td><strong>Local authorities</strong></td>
<td>30</td>
<td>35-40</td>
<td>35-40</td>
</tr>
<tr>
<td><strong>Nationalised industries</strong></td>
<td>25</td>
<td>100</td>
<td>71</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>20</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>420-512</td>
<td>1065-1403</td>
<td>790-1110</td>
</tr>
</tbody>
</table>

*The Secretaries of State for Social Services and Education have said that some offsetting additional expenditure on their services is necessary.*
4. I invite my colleagues to endorse what has been agreed so far on these items.

5. There is also some £350 million of savings for 1974-75 if we include housing rents and agricultural support. The details of these need time to be worked out and agreed with the interests concerned. But I am sure, and invite my colleagues to agree, that we must include these two items in our statement, with a firm expression of our intentions and with figures to show our broad objectives in terms of public expenditure.

6. As against these savings, we have accepted additional commitments adding up to some £30 million in 1971-72 with consequential expenditure in later years; and there will be a few million pounds more to be found to ease the impact of the new social service charges on families with small incomes.

7. This will bring us not much more than half-way to our target for 1974-75, and we badly need to balance the cuts on social expenditure with cuts on other expenditure. This is one reason why the future of the Concorde and the BAC 311 and our whole expenditure on aid to industry generally is so important. Otherwise the rest that we need to reach our target has almost all to be found by moderating the upratings of social security pensions. I urge my colleagues to agree therefore that the largest possible contribution to the savings should be obtained from the Ministry of Technology over the whole field of civil aircraft, the technological support programme and the Industrial Reorganisation Corporation, looking to the Department of Employment and Productivity and to the Board of Trade to provide their shares; and that expenditure on defence and other external policies should at least be contained.

8. The remaining items are as follows:

   i. Social Security

   I have proposed that the upratings in 1971 and 1973 should be limited to compensating for price increases only. This would save -

   £ million

   1971-72  1974-75

   125  490

   The Secretary of State has not accepted this. He agrees that there is little room for improvement of pensions in 1971, but thinks that more will need to be done in 1973, and is considering improvements for older pensioners and in services for old people and a relaxation of the earnings rule for wives of the chronically sick. His ideas would cut the savings to -
This in my view means giving up more than we can contemplate, though I would not exclude the possibility that in 1973, if the economic situation permits and as a maximum, we should aim at an uprating in line with the growth of personal disposable income of the working population.

ii. Education, Health and Welfare

The Secretaries of State have each agreed proposals in their fields as individually feasible. But each has also said that some offsetting additional expenditure on their services is necessary. I suggest that we can only look at the proposed additional expenditures when we have settled the savings, for the reason which I have given in paragraph 1.

iii. Local Authorities' Current Expenditure

Some of our specific proposals on charges will reduce the net programmes which between them make up the total of local authorities' current expenditure. I have proposed that over and above this we should settle Rate Support Grant on the basis that local authorities can save by better performance about ½ per cent of their current expenditure as at present planned. Several of my colleagues are afraid that this will result in undesirable additional restrictions on their services. But this is the only way by which we can influence local authorities to find economies, including economies of manpower, and I am sure that we must persist with it.

9. I must remind my colleagues that they have been asked to bring forward further proposals for reductions. These and other proposals for savings which I am still considering, for example, some of those on nationalised industries' investment, will need to be decided at a further meeting this month.

SUMMARY

10. I invite my colleagues -

1. To endorse the proposed savings shown above as agreed, reserving the question of some offsetting additional expenditures on social services for consideration when our programme of savings has been decided (paragraphs 3 and 8ii.).
2. To agree that our statement should include a firm expression of our intentions, and figures to show our broad objectives in terms of public expenditure, on housing rents and agricultural support (paragraph 5).

3. To note that some additional expenditure will be needed to ease the impact of the new social service charges on families with small incomes (paragraph 6).

4. To agree that the largest possible contribution to the savings should be obtained from the Ministry of Technology - over the whole field of civil aircraft, the technological support programme and the Industrial Reorganisation Corporation, the Department of Employment and Productivity and the Board of Trade also providing their shares (paragraph 7).

5. To agree that expenditure on defence and other external policies should at least be contained (paragraph 7).

6. To agree that the upratings of social security benefits in 1971 and 1973 should be limited to compensating for price increases only (paragraph 8i.).

7. To agree that Rate Support Grant should be settled on the basis that local authorities should be expected to save by better performance about \( \frac{3}{4} \) per cent of their current expenditure as at present planned (paragraph 8iii.).

8. To note that responses to the request for further proposals for savings are needed for decision, together with those which I am still considering, at a further meeting this month (paragraph 9).

M V M

Treasury Chambers SW1

9 September 1970
### SAVINGS IN EXPENDITURE

All figures in £ million at 1970 Survey prices

<table>
<thead>
<tr>
<th>Action proposed</th>
<th>Saving accruing in:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1971-72</td>
</tr>
<tr>
<td></td>
<td>cash (demand</td>
</tr>
<tr>
<td></td>
<td>effect)</td>
</tr>
<tr>
<td><strong>Resistance to Industry</strong></td>
<td></td>
</tr>
<tr>
<td>Discontinue, with appropriate adjustments to company taxation</td>
<td>-</td>
</tr>
<tr>
<td>State of play: To be discussed shortly with Minister of Technology, with a view to report to Cabinet for decision before the end of this month.</td>
<td>(see 665 (1))</td>
</tr>
<tr>
<td><strong>Further inter-departmental study</strong></td>
<td>-</td>
</tr>
<tr>
<td>State of play: Officials are working on a paper for the Ministerial Committee on Agriculture later this month dealing with proposals for a levy system for beef, cereals, lamb and milk products. The estimates are highly tentative.</td>
<td>(150) (175)</td>
</tr>
<tr>
<td><strong>Concorde</strong></td>
<td></td>
</tr>
<tr>
<td>Cancel</td>
<td>67 (67)</td>
</tr>
<tr>
<td>Not invest public funds</td>
<td>22 (25)</td>
</tr>
<tr>
<td>State of play: To be considered by Ministers this month in the light of the inter-departmental report commissioned by Cabinet. With the passage of time some of the possible savings in 1971-72 may have been eroded; it might not be possible to make all the cancellation payments of some £30 million on Concorde in the current year and a large part might slip over into 1971-72.</td>
<td></td>
</tr>
</tbody>
</table>

It is assumed that Ministers will wish to recycle this saving within the corporate sector, so as not to discourage industrial investment; and that in general this saving will not therefore be available for reductions in personal taxation.
Abolition 17(ii) (2) - -

State of play: This is currently being discussed with the Minister of Technology

Technological Support Programme
Elimination of activities 10 (6) 25 to (20 to 50 40)
which should be undertaken or paid for by private industry. Aim to save up to 50% of present expenditure

State of play: Proposals awaited from Minister of Technology

Regional Employment Premium
Withdraw as soon as is consistent with the Government's commitments

State of play: It is agreed that savings will not be attainable before 1974-75. Proposals are being worked out for either abolition of the premium in September 1974 or for variants of phasing out over periods of up to 3 years from that date.

Research and Development

Research Councils
Squeeze on fundamental research, parallel to that suggested for applied research in the public sector, supported by longer-term study of future of Councils' work

State of play: Agreed with the Secretary of State.

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[iii] If the IRC is not abolished there will be large additional expenditure fromm 1971-72 onwards.

ROADS AND TRANSPORT

Roads
Reduction in local authority capital expenditure on minor roads etc. Modest cuts in the main road programme. Due account to be taken of regional aspects. Cuts on road maintenance to be effected by a squeeze through Rate Support Grant (see under Local Authorities below).

Transport Infrastructure
Application of more stringent cost/benefit criteria so as to reduce the number of projects or spread forward their phasing.

State of play: Agreed with Transport Departments (iv)

Air Traffic
Moves towards full recovery of licensing fees etc. Increased BAA landing fees.

State of play: If the current discussions of BAA's financial target result in a decision for 14% there will be an increase in their surplus of about £0.8 million in 1971-72 and of £1 million per annum thereafter. Discussions of aviation licensing and other fees could lead to an increased yield of about £0.5 million per annum. These developments would increase public sector receipts but not (on present definitions) reduce public expenditure.

SOCIAL SERVICES

General
Increase charges to cover full cost of all services, except eye tests, which would still be free, with continued exemption of the priority class.

State of play: Agreed with Secretary of State (v)

(iv) The Ministry of Transport have indicated that they would wish to bid for additional expenditure of perhaps £10 million a year, if the Government were to make concessions on "injurious affection".

(v) The Secretary of State has indicated that he also wishes to incur additional expenditure on improvements elsewhere in the health service.
Charges geared to 50 per cent of cost (other than dental examinations) with continued exemption for most of the priority classes.

**State of play:** Savings agreed with the Health Ministers including a reduction after 1971-72 in the upper age limit for exemption from 21 to 18.

Increase charge to 25 per cent of cost and limit exemptions to cases of financial hardship only.

**State of play:** The Secretary of State has expressed the view that the change to a percentage charge could not be made quickly. Meanwhile he has offered to increase the charge to 4 shillings - yielding £14 to £16 million - and to consider reducing the range of exemptions.

Charge £4 per week, with (fairly wide) exemptions.

**State of play:** It has been agreed not to pursue this charge.

Charge full cost by stages with hardship remission.

**State of play:** The Secretary of State accepted that this saving is feasible, but in relation to this and other savings in the education programme has stressed that additional expenditure is desirable on primary schools.

Withdrawal from primary and special schools from September 1971.

**State of play:** The Secretary of State has accepted that this saving is feasible, subject to retention of free milk in nursery and infants schools and in a few other "medical" cases. This reduces the savings to £6 million and £9 million respectively.

Withdrawal of Welfare Milk.

**State of play:** The Secretary of State has agreed that "cheap" Welfare Milk should cease, saving £30.5 million. But it has been agreed that free milk for needy and large families should be retained for the time being, but reconsidered when plans for relieving family poverty are more developed.
Increase of some 50 per cent in local authority fees

**State of play:** The Secretary of State has accepted that this saving is feasible, but argues that this should not be counted as additional to the general squeeze on local authority current expenditure.

Annual charge for borrowing (exempting school children and retirement pensioners).

**State of play:** The Secretary of State has noted real difficulties. She has undertaken to examine all practical means of effecting savings on the scale proposed, but doubts if she can secure anything significant in 1971-72.

Entrance fee

**State of play:** A reply is awaited from Lord Eccles to the Chief Secretary's letter of 13 August.

Stop expenditure as soon as possible

**State of play:** It has been agreed to make no immediate saving, but to keep under continuing review the future expenditure of the University: discussions have opened between DES and the university authorities.

Limit uprating in 1971 and 1973 to not more than (a) the increase in personal disposable income, as distinct from increase in earnings (before tax etc) or (b) the increase in consumer prices (this latter alternatively providing the upper end of the range of possible savings)

**State of play:** The Secretary of State has made alternative proposals for a 1971 uprating giving 2/5 of the difference between prices and earnings, with substantial "sweeteners" for older pensioners, the earning rule for wives of the chronically sick, home helps, "meals on wheels" etc. For the 1973 uprating the Secretary of State wishes to see a full, or near-full, earnings uprating.
Freeze cash value of these benefits  

State of play: Agreed with the Secretary of State.

Making absolute the 3 waiting days  

State of play: Agreed with the Secretary of State.

Move to a system of "fair rents" with rebates for poorer families  

State of play: The Minister of Housing is reviewing the basis of housing finance (which raises important questions of social policy) in consultation with the Secretaries of State for Scotland and Wales and will be circulating a paper in mid-October. He has expressed support in principle for a "fair rents" system. Meanwhile the estimates must be regarded as highly tentative.

Local authorities  

Squeeze through Rate Support Grant, over and above reductions brought about by policy changes in functional programmes  

State of play: The Minister of Housing has expressed willingness to go for savings of this order in this Autumn's RSG negotiation, though he cannot commit himself to a precise figure until he sees the latest estimates of out-turn. The Secretary of State for Scotland has opposed such a squeeze in the light of provisional out-turn data for Scotland. The Secretaries of State for Education and Health have opposed the general squeeze for fear of its effect on their respective programmes; and the Home Secretary has also expressed reservations.

Reduction in capital expenditure, particularly on urban development and local authority assistance to industry  

State of play: The reaction so far from the Minister and from Wales has been encouraging. The Secretary of State for Scotland has so far not agreed to a reduction of more than £1 million as opposed to the £1½ million which would be the Scottish share on a pro rata basis.
Combination of:

(i) specific reductions in capital programme
(ii) increase in Test Discount Rate
(iii) increase in rate of interest charged on new Government loans,
(iv) sale to private sector of peripheral or subsidiary activities
(v) discontinue unprofitable activities
(vi) embargo on optional new investment in subsidiary activities pending the outcome of the reviews at (iv) and (v) above.

State of play:

(i) Specific reductions in capital expenditure:
Departments have offered savings of £6m in 1971-72 rising to £29m in 1974-75. Discussions are continuing at official level on the implications of further cuts of 5 per cent and 10 per cent in the industries' capital expenditure programmes. For most programmes the implications are likely to be very difficult.

(ii) Other proposals:

(a) increase in the Test Discount Rate
(b) increase in the rate of interest charged on new Government loans.

A report will be coming forward shortly to Ministers on (a) and (b) above.

(c) sale to private sector of peripheral activities
(d) discontinue unprofitable activities
(e) avoidance of optional new investment in subsidiary activities pending the outcome of reviews at (c) and (d) above.

Departments have come forward with a number of suggestions on (c) and (d) above and the more promising possibilities are now being studied by officials. Meanwhile the measures envisaged at (e) has been put into effect.
Abolish (vi) 20 (2) 6 to (1) (vii) 8 (vii)

State of play: Agreed and announced.

Cost reduction programmes

State of play: The Lord Privy Seal will be reporting to Cabinet very shortly.

Footnotes:

(v) Replacement of betterment levy by present capital gains tax only would result in a substantial loss of revenue.

(vi) This includes revenue from sales of the Commission's holdings of land.
CABINET

CONCORDE

Note by the Secretary of the Cabinet

By direction of the Prime Minister I am circulating for consideration by the Cabinet next week a memorandum on Concorde which has been prepared by an interdepartmental group of officials.

Signed BURKE TREND
1. At its meeting on 30 July (CM(70) 11th Conclusions, Minute 2), the Cabinet decided to consider civil aircraft projects further in September. This paper deals with Concorde.

TECHNICAL PROSPECTS

2. The target performance for the aircraft on entry into service in 1974 is a payload of 20,000 lb cruising at twice the speed of sound \( (M = 2) \) between Paris and New York. Two years after entry into service the target payload is 25,000 lb under the same conditions.

3. The prototype Concorde has now flown at just over 1.5 times the speed of sound. Within this limit the handling has been good, as have the take-off and landing characteristics. Reliability has been better than expected.

4. Despite this encouraging picture, the target performance at entry into service can only be achieved by the provision of a new nozzle which will cost at least £30 million and on which only initial development work to the end of September 1970 has so far been authorised. There are still areas of great uncertainty in performance - accounting for no less than 8,000 lb of payload - and these will not be significantly reduced until the results of flight at \( M = 2 \) have been assessed. This is not now likely to be before early 1971 by which time the margin of uncertainty about the aircraft's overall performance should have been reduced to ± 3-4,000 lbs. These remaining uncertainties will be progressively reduced over the period 1971-74.

NOISE

5. All airlines are worried about the acceptability of Concorde at major airports. At entry into service the aircraft should, though this is not yet certain, meet the present limits at Heathrow and New York (Kennedy). But the rules at the latter may well be made more stringent by the time Concorde enters service and there will equally be pressures on the Government to tighten those at Heathrow. British Aircraft Corporation (BAC) expect Air France and British Overseas Airways Corporation (BOAC) to ask for guarantees before they place orders that they will be allowed to operate from Heathrow and Kennedy Airports in 1974 and subsequently. Guarantees in these terms could not be given though we do expect by March 1971 to be reasonably clear whether Concorde will comply with the present limits; if it does, and subject to the point about United States noise restrictions in paragraph 18 below, it is reasonable to hope that it will be exempted from any additional restrictions and that this will meet the position of the airlines.
6. The United States, together with a number of European countries, have already indicated their intention of banning commercial supersonic flying over their national territory. Concorde's commercial prospects and sales forecasts have therefore been based on the assumption that all overland supersonic flying will be banned.

COMMERCIAL PROSPECTS

7. The Anglo-French Concorde Economic Prospects Committee (CEPC) completed in May a further study of the market and of commercial prospects. The French and United Kingdom members of the Committee were in reasonably close agreement on the range of possible sales. The United Kingdom members considered that sales were likely to be between 50 and 150 at a price of $28 million in January 1970 prices (the price on which all subsequent calculations in this paper are based). The French members of the Committee put the range at 85 to 155. Where the two sides differ is in their judgment about where, within this range, the number of sales is most likely to fall. The United Kingdom members considered it more likely to be in the lower half (50 to 100) while the French believe that the most likely figure for actual sales is 130.

8. Airline reactions, including those of United States airlines, so far are unenthusiastic. BOAC's assessment is that for a small network of 5 routes, which would require 5 aircraft, they would be considerably less well-off with a mixed fleet of Concordes and Boeing 747s than with an all-747 fleet, particularly in the initial years. They estimate that operation of Concorde will reduce their profitability by about £3 million per aircraft in 1975-76, falling to a little over £1 million per aircraft in 1979-80. Their assumptions are open to argument at this stage but their evidence certainly points to an overall worsening of their financial position if they operate Concorde and would tend to confirm the lower end of the estimates made by the United Kingdom members of the CEPC. BOAC are prepared to operate Concorde provided arrangements are made to ensure that their overall position is not thereby worsened. If the project goes ahead, therefore, the Government will have to be prepared to negotiate, before orders are placed, a subsidy for BOAC or other financial terms on which they will agree to operate Concorde. The grant of a subsidy to BOAC or to Air France would become known, and would prejudice sales prospects to other airlines. However, it is reasonable to expect that the other airlines would feel compelled to buy in order to remain competitive. Option holders are not required to convert the options into purchases until 6 months after BOAC and Air France have purchased; their decisions are not expected to be made before the spring of 1971, so firm information about further purchases may not be available until towards the end of 1971. Until BOAC and Air France have signed contracts, the intention of other prospective purchasers will remain obscure.
DEVELOPMENT COSTS

9. The current estimate of total (British and French) development costs including the cost of the new nozzle is £800-£850 million at January 1970 prices. This will have to be revised upwards unless the results of flight tests at M = 2 are significantly better than is now expected.

ECONOMIC ASSESSMENT

10. British and French officials agree that there is no chance of getting back any of the £480 million spent or committed to the end of June 1970 by the two Governments. Taking into account only future expenditure on development and production, and discounting future costs and receipts to present value at 10 per cent, then within the ranges of sales prospects (50-150) and development costs (£800-£850 million) discussed above, the excess of discounted costs to the United Kingdom over benefits ranges between £103 million and £177 million, the "implied preference" between 14 per cent and 61 per cent, and the United Kingdom Government's discounted loss on future development expenditure between £75 million and £125 million. (These figures make no allowance for any increase in development costs beyond £850 million nor for any operating subsidy or lowered return from BOAC). (A fuller assessment is set out in the Annex).

LEGAL POSITION

11. The French maintain that by virtue of the Agreement of 1962 termination of the project can only be in agreement between the two partners. The British view is that following the correspondence in 1968 between Mr. Benn and M. Chamant we are now proceeding on a stage-by-stage basis, with each Government's commitment limited to what is agreed for each stage. We told the French earlier this year that we regarded our commitment as extending only to the end of June 1970.

12. It would be prudent to work on the assumption that if we were to withdraw from Concorde unilaterally the French would take the matter to the International Court. When the Law Officers advised on the legal position in July, their opinion was that if the French did so the Court would be more likely to find in our favour than against us, but that if the Court did find against us the damages awarded would most probably amount to between £40 million and £60 million; the possibility of damages of up to £230 million (this being the total amount spent by the French on the project so far) could not be excluded.

FRENCH COMMITMENT TO THE PROJECT

13. Although it is clear that the French Treasury has been increasingly concerned about the costs of Concorde, and has been bringing pressure to bear inside the French Government, there has
been no apparent indication that the French Government as a whole is weakening in its commitment to the project. The French continue to consider that we should await the results from the tests at $M = 2$ and review the situation thereafter.

INTERNATIONAL ASPECTS OF THE CASE FOR AND AGAINST CONCORDE

14. While there is no economic case for continuing with the project, we are in a treaty relationship with the French and, even if we can argue that we are now legally free to withdraw, such action in the face of their wish to continue the project would be represented as a breach of faith which could be expected to have wide repercussions both on our relations with the French and on our wider international reputation. In particular, a case in the International Court on this issue could be damaging to our relations with France in the two or three years before a decision was reached and to our international standing if the judgment were unfavourable.

15. The hostility aroused in Paris by the unilateral cancellation of Concorde would be likely to spill over into our negotiations to join the European Economic Community (EEC). The French would be able to argue that this demonstrated our undependability as future members of the Community and our insistence on our own narrow financial interests above all else. It would be particularly easy for the French to attack us in this way if we withdrew unilaterally even before the tests at $M = 2$ had shown what the aircraft could do. If the results of the tests were as now expected the French could still advance the same argument. We would however then be in a position to argue that we had given the aircraft every chance to prove itself technically.

16. It would be possible to argue that Concorde had become purely a prestige project (the French agree with us that it is bound to show a loss in economic terms), that its commercial prospects were very poor and that it was not in our interests or those of the Community that our economies should be burdened with projects of this nature. In the circumstances, we could also argue the French refusal to agree to terminate the project was unreasonable. However, in the light of recent advice from the posts concerned, we have no reason to believe that these arguments would cut any ice with the French at this stage. They would not be alone among the EEC countries in considering a unilateral decision as evidence of our unreliability as a partner. This in turn could affect the attitude of the other EEC countries to the negotiations for our accession. On the other hand, it is reasonable to assume that the French Government's attitude to our accession to the EEC, and a fortiori that of the other Governments, will be determined by a much wider assessment of where the balance of their interest lies than the fate of one project however great its individual importance.
THE AMERICAN SUPERSONIC TRANSPORT (SST)

17. The United States Administration appears committed to development of the Boeing 2707 and has declared its willingness to finance the bulk of the development programme. The Boeing 2707 will be larger (about 280 seats as compared with 130 for Concorde), faster and noisier than Concorde. The programme has attracted strong opposition on economic and "environmental" grounds. When the SST appropriation for the United States fiscal year 1971 comes up for approval in the Senate, probably in September, voting is expected to be close, though the appropriation is generally expected to pass.

18. Concorde and the Boeing 2707 are to some extent mutually supporting. If Concorde were cancelled it would strengthen the anti-supersonic lobby in the United States and make easier a decision to drop or postpone indefinitely the American aircraft. A decision to cancel the Boeing 2707 would almost certainly make the operation of Concorde more difficult, since the United States Administration would no longer have any incentive to side with SST manufacturers on the question of noise.

19. Concorde is now so far advanced that there would be little possibility of collaboration between Boeing, BAC and SNIAI in its development. If Concorde is a technical success, and the American Government decides to continue with the development of a bigger and faster aeroplane, some possibility of collaboration might emerge in the future, but there is no basis at present on which to start exploring any of these possibilities with the Americans. Nor is there any reason to suppose that the French would support such collaboration at the present time. Discussions could not start without their agreement.

PUBLIC EXPENDITURE

20. The United Kingdom share of expenditure is now running at a rate of over £1 million per week, and by the end of March 1970 £220 million had been spent. Looking to the future, the position is as follows (£ million) -

<table>
<thead>
<tr>
<th>Year</th>
<th>1970-71</th>
<th>71-72</th>
<th>72-73</th>
<th>73-74</th>
<th>74-75</th>
<th>75-76</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated future annual expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) on extramural development</td>
<td>52</td>
<td>43</td>
<td>31</td>
<td>21</td>
<td>16</td>
<td>11</td>
<td>174</td>
</tr>
<tr>
<td>(b) on production (net) - brackets indicate a net inflow</td>
<td>13</td>
<td>24</td>
<td>49</td>
<td>49</td>
<td>14</td>
<td>(39)</td>
<td>110</td>
</tr>
<tr>
<td>(c) Total</td>
<td>65</td>
<td>67</td>
<td>00</td>
<td>70</td>
<td>30</td>
<td>(28)</td>
<td>284</td>
</tr>
</tbody>
</table>

CONFIDENTIAL
Notes: 1. Concorde development costs are based on the present basic estimates of £800 million at January 1970 prices, of which the United Kingdom share would amount to some £394 million; they include no allowance for development cost increases to £850 million or beyond.

2. If Concorde continues, production expenditure, which will mainly be in the form of financing loans, should be recovered in later years as receipts build up from sales, but there is a strong probability of significant Government losses being incurred on production, particularly if the $28 million sale price on which the above forecasts are based is not achieved or if sales fall short of, say, 100 aircraft. This is because BAC and Rolls Royce are insisting that the Government should indemnify them against the risk of loss on production.

21. If Concorde were stopped now potential savings would be reduced below the expenditure estimates by cancellation charges of perhaps about £30 million spread over 1970-71 and 1971-72, any damages awarded by the Hague Court (see paragraph 12 above) and by any expenditure incurred in respect of consequential redundancy and unemployment. On the other hand, BOAC would expect their capital expenditure to be significantly reduced if they bought more 747s instead of Concorde.

DOMESTIC IMPACT OF CONCORDE CANCELLATION

22. The principal concentration of employment on Concorde is at Bristol in BAC, Filton (currently about 6,000 workers) and Rolls Royce, Bristol (currently about 4,000 workers); BAC also employ at Weybridge about 2,000 workers on Concorde. The current rate of unemployment in the Bristol area is 2.3 per cent out of a workforce of about 280,000; if on cancellation all 10,000 Concorde workers were to come on to the register the unemployment rate would rise to nearly 6 per cent. Previous experience of redundancies in the aircraft industry has been that by no means all those currently employed are made redundant, and that most redundant workers are absorbed within a few months; but a local concentration on this scale has not occurred before and many of those re-deployed might replace others less qualified who in turn might swell the unemployment registers. Many of those with higher and specialised skills on the development side would have difficulty in finding comparable employment locally. On the other hand, Bristol is an area of rapid growth. In the short term there would be considerable additional unemployment for a time; it is difficult to assess its likely scale or duration but, by way of illustration, it would cost the Exchequer in social security benefits and losses of contributions and taxation some £0.45 million per 1,000 men unemployed for the first 6 months.

23. In the longer term the economy of the Bristol area is soundly based with substantial prospects. Continued growth at the present rate is likely to require little or no movement in of mobile industry. Even if work on Concorde comes to an end the check to growth should be only temporary, while if it goes into quantity production, there will be some further increase in the rate of Bristol's growth.
24. The cancellation of Concorde would probably cause BAC to close Filton completely but the transfer or redundancy of the other workers there (3,400) would probably be phased over a considerable period. The unemployment rate in the Weybridge area is currently less than 1.2 per cent out of a workforce of nearly 80,000 spread over a large travel to work area. No long term unemployment problems arising out of cancellation are foreseen. The longer term impact on Rolls Royce Bristol is more dependent on the work load of the Rolls Royce group as a whole.

25. Sub-contracting and equipment contracts for Concorde absorb about 9,000 jobs spread over many firms and areas. No major short or longer term unemployment problems are foreseen but some sectors of the equipment industry may be hard hit by the denial of opportunity to reap production benefit from their development effort.

26. The impact on employment of cancelling Concorde, particularly outside BAC, Filton, would be softened if meanwhile a decision had been taken to go ahead with the BAC 311 and the RB 211-61 engine. These projects and the impact on the industry of possible decisions on them as well as Concorde will be discussed in a further paper.

27. Concorde has become a symbol of this country's efforts in the field of advanced technology. The aircraft industry and possibly those working in other advanced technology industries and some of the public will not accept that cancellation is evidence of a determination to put the country's technological resources only into economically rewarding projects. To the extent that they do not, cancellation will have an adverse effect on morale, possibly extending beyond the aircraft industry itself. On the other hand, Concorde is demonstrably uneconomic, and there are many who would see cancellation as encouraging evidence of the Government's determination to eliminate waste in public spending. Cancellation would also be welcomed by those in the United Kingdom who are worried about the effects of supersonic aircraft on the environment.

**SUMMARY OF PROSPECTS**

28. Even if all expenditure already committed is written off, any reasonable evaluation indicates that future expenditure will, even taking the most favourable assumptions, result in substantial losses. Moreover current expenditure at about £1 million a week is very substantial both in itself and in relation to the reductions in public expenditure which Ministers are currently seeking. The case for continuing to spend this money is not economic but rests on a complex of non-economic factors - the most important of which is the impact of withdrawal on our international position and, in particular on our relations with France and on the EEC negotiations. These factors will in the future, as in the past, make it very difficult to cancel the project at any time, unless the aircraft does substantially worse in the remaining tests than is now expected. The real question is therefore, whether we should be prepared to continue an uneconomic project and, if so, on what basis we should do so.
POSSIBLE COURSES OF ACTION

29. Against this background there are in practice two courses open at this stage:

1. To withdraw immediately

This would have to be a unilateral withdrawal since there is no prospect of cancelling now in agreement with the French.

2. To agree to continue until 31 March 1971 when the position would again be reviewed

Ministers would then have to decide, on the basis of the assessment of the flight tests at \( M = 2 \) and any firmer indication of airline thinking, whether or not to continue with the project. If the results of the flight tests are significantly worse than expected there will be a reasonable possibility of securing French agreement to cancellation on the grounds that the prospects had deteriorated to a point where it was clearly unreasonable to go on with the project. But it is more likely that results will be generally in line with predictions, in which case our position, including our forecasts of the aircraft's technical and commercial prospects, will be very much the same as now.

30. As to the choice between the courses, to safeguard our legal and diplomatic position if for no other reason, a decision to withdraw would have to be preceded by discussions with the French. Flight trials at \( M = 2 \) will begin in October. If Course 1 were adopted the necessary prior discussions with the French would be taking place while the trials were in progress. The Law Officers advised in July that there was little to choose between the courses, but they take the view that the nearer we get to the \( M = 2 \) tests, the more difficult it becomes to withdraw before the tests have been completed and assessed. In negotiating and diplomatic terms the advantage lies with Course 2. On the other hand, the ordering position and sales prospects will not be much clearer in March 1971 than they are now; the choice between continuation of the project and termination will not be any easier. And we will have spent a further £30 million.

31. If Ministers decide against Course 1, there is no need for a decision, even of a tentative nature, as to our line of action next spring. The news of even a tentative decision might leak. Officials would moreover be placed in an extremely difficult position in their contacts with the French if they had to work against a background of a decision, even a tentative one, to withdraw from the project. A tentative decision now to withdraw would not lead to any reduction in public expenditure. Expenditure and commitments are already being limited as far as practicable and further reductions could not be achieved without it becoming apparent to the firms and the French that effectively we had decided to withdraw. If we continue with the project we must, however, take suitable action with the French to preserve our legal position.
METHOD OF PROCEEDING

32. The detailed procedures which it is suggested should be followed if Ministers decide in favour of Course 1 or Course 2 are set out in Annex B.
**ANNEX A**

All money figures in £m and net of import content (= 8% of cost)
Discount rate = 10%

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**ECONOMIC ASSESSMENT**

Future expenditure and receipts by the UK

<table>
<thead>
<tr>
<th>No. of sales</th>
<th>Development</th>
<th>Undiscounted expenditure</th>
<th>Undiscounted receipts</th>
<th>Undiscounted surplus (Deficit)</th>
<th>Discounted expenditure</th>
<th>Discounted receipts</th>
<th>Discounted Loss</th>
<th>Implied Preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>50</td>
<td>679</td>
<td>590</td>
<td>(89)</td>
<td>447</td>
<td>289</td>
<td>158</td>
<td>55%</td>
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<tr>
<td>Total cost</td>
<td>150</td>
<td>1,482</td>
<td>1,687</td>
<td>205</td>
<td>831</td>
<td>728</td>
<td>103</td>
<td>14%</td>
</tr>
</tbody>
</table>

| Development | 100         | 1,099                     | 1,148                  | 51                            | 655                    | 514               | 141             | 27%              |
| Development | 150         | 1,509                     | 1,687                  | 205                           | 831                    | 728               | 103             | 14%              |

Note

(i) These calculations assume that there is no prospect of recovering any of the £480 million spent or committed by the UK and France up to 30 June 1970, and relate only to estimated expenditure thereafter.

(ii) The discounted figures assume that Concorde sales will include an average of 10 years credit for 80% of the purchase price, and that, the export credit interest rate will average 6%. The difference between the export credit interest rate and the discount rate has been taken into account in calculating the discounted "receipts" column.

(iii) The calculations also assume that costs, receipts, and losses will be shared equally between the 2 countries. In practice the UK will be responsible for less than half of the production and the implied preferences, would range between 2-6 percentage points higher than those indicated above.
ANNEX B

METHOD OF PROCEEDING

COURSE 1

1. If Course 1 is adopted, there are two possible methods of proceeding:

a. A communication to the French Government that we had decided to withdraw from the project and requesting an urgent meeting to discuss the necessary arrangements for terminating contracts etc.

This has the merit of making a clean, sharp break and avoids the risk of our decision leaking before we are ready to announce our decision to the firms and publicly. There are, however, considerable objections on foreign policy grounds to proceeding in this way. The French have been our partners in Concorde for 8 years. To inform them without any prior discussion that we had decided to withdraw would be politically damaging and do considerable harm to our posture in Europe. There is also the legal objection that not to have offered to negotiate with the French for an agreed withdrawal would be prejudicial to our position before the International Court.

b. A communication to the French Government setting out our doubts about Concorde and the need to save public expenditure and indicating that in our view the right course was to terminate the project. The letter would request an urgent meeting with the French Government to review the position.

The French would almost certainly reject our view of the position and argue that the project should be continued. Having listened to all the French had to say and considered any proposals they had to make, we would then after a suitable period formally notify them that we had decided to withdraw from the project. This course of action is much to be preferred in terms of our foreign regulations. But the news would almost certainly leak following our first communication to the French Government when we should be in the middle of the M = 2 tests. This would be embarrassing and might also be considered unreasonable by the public at large. If this course is adopted it would be desirable to press ahead rapidly with the discussions with the French, and to announce our withdrawal as soon as possible thereafter.

2. In view of the magnitude of a decision to withdraw it would no doubt be appropriate that the communication, whatever form it takes, should be made to the French Government at Prime Minister level.
COURSE 2

3. If Course 2 is adopted the decision should be communicated to the French Government by the Minister of Technology as soon as practicable. In doing so he would -

i. Maintain the British view that the commitment of each Government is now limited to what is agreed stage by stage.

ii. Express the Government's continued anxiety about the programme on the various grounds: continued escalation of costs, noise, sales prospects, etc.

iii. Make it clear that, in continuing beyond June 1970, Britain was not to be taken as accepting that continuation of the project was justified on the basis of current reports by the Concorde Directing Committee and the CEPC.

iv. Say that nevertheless we are prepared to agree to continue with the project until March 1971, on the understanding that a major review of the future of the project jointly with the French would be undertaken at that time in the light of the results at $M = 2$ and what is then known of airline reactions and the prospects of orders.
CABINET

NON-INDUSTRIAL CIVIL SERVICE MANPOWER

Memorandum by the Lord Privy Seal

SCALE OF THE PROBLEM

1. The size of the Civil Service has aroused considerable Parliamentary, Press and public interest in recent years. We have a clear-cut commitment to reduce it. "A Better Tomorrow" said:

"We will reduce the number of Civil Servants: under Labour their numbers have grown by over 60,000. The Land Commission will be abolished. The functions and responsibilities of all Departments and Government agencies will be systematically rationalised. There will be cost-reduction plans for every single Ministry in Whitehall ..."

2. The Civil Service is costly in terms of both manpower and money, and costs have risen sharply in recent years. Under previous Conservative Governments non-industrial numbers in post (excluding the Post Office) ran down from about 422,000 in 1951 to about 372,000 in 1958 and then up again to nearly 413,000 on 1 October 1964. When we took office this year the number was about 496,000: this includes some 15,000 staff transferred from the Post Office on the setting up of the Department for National Savings and the Ministry of Posts and Telecommunications on 1 October 1969, so the real increase between October 1964 and July 1970 was about 68,000. The non-industrial Civil Service now represent about 1.9 per cent of the United Kingdom working population as compared with about 1.8 per cent in 1951, 1.5 per cent in 1958 and 1.6 per cent in 1964. Its demand on skilled graduate manpower is also increasing. In money terms, each non-industrial civil servant costs the taxpayer on average about £2,000 per annum all told: the Estimates provision for non-industrial Civil Service salaries and wages alone rose from the equivalent (revalued at constant prices) of £585 million in 1964-65 to nearly £700 million in 1970-71.
Apart from these considerations there is a simple but potentially most embarrassing political factor. Our commitment as a Government to a reduction in Civil Service manpower is simple and unequivocal. But what is required to achieve it is the reverse of simple and is bound to take time. However the commitment, as stated, has been accepted as such and has been fastened onto by public opinion. A recent survey showed that the public are looking for real economies in Civil Service manpower (which they often confuse with public service manpower) and they are looking for them early. If we fail to make such economies, or at the very least to show determination to reverse the trend towards an ever mounting Civil Service budget as a first step in establishing a strategy for the Service, we shall most certainly come under rising public criticism and find ourselves forced into arbitrary measures which would interfere with our longer-term objective of securing rational economies in manpower.

PRESENT POSITION

4. As a first step in attacking the trend, with the agreement of the Prime Minister I recently asked my colleagues to seek reductions in their Departments' manpower ceilings for 1 April 1971 and forecasts for 1 April 1972. The starting position for the former date was the overall ceiling of 505,300 indicated by the previous Government on 14 April 1970; whilst for 1 April 1972 a gross increase of about 16,600 above that level had been forecast by Departments. These forecasts were based on the policies of the previous Government - which we will be changing - and were no doubt pitched too high; on the other hand they include sizeable provisions for commitments on a continuing programme of work in many areas which will continue more or less unchanged.

5. The replies which I have so far received are in aggregate deeply disappointing. They amount to net reductions of only about 1,400 in the original aggregate of Departmental ceilings for 1 April 1971 and only about 4,900 in the aggregate forecast for 1 April 1972 after taking into account the increases which are now being sought by a few Departments. Details are set out, Department by Department, in an Annex. On this basis revised figures would be 503,900 for the 1 April 1971 ceiling and 517,000 for the 1 April 1972 forecasts.

6. These figures do not take into account certain important changes of classification that are in prospect, such as the possible transfer of present civil servants out of the Service to a civil aviation authority, or of certain courts staff into the Service. These are legitimate but artificial changes which we will have to distinguish from real growth and savings. Nevertheless they are presentationally important, and I propose to pursue as a matter of urgency some other possible changes of classification which might be presentationally helpful.
A STRATEGY FOR THE SERVICE

7. Further action is clearly necessary to consolidate and improve upon what Ministers have been able to offer so far. This should also take account of the manpower consequences (some favourable, some adverse) of policy changes which may result from the public expenditure review, and which are not reflected in the above figures; though their net effect will hardly be very significant in relation to the size of the problem. Our immediate aim (covering April 1971 and April 1972) will be to halt the upward trend in numbers at about the size of Service that we have inherited. This will be difficult enough, against the pressures of demographic growth and the requirements of additional manpower for our own policy innovations. Thereafter, the possibility of making progress towards a smaller Civil Service will depend on our success in cutting down the functions of Government for, as the Prime Minister said at Sunningdale in June, this is the only way to really substantial reductions. To put the matter in perspective, a reduction by 5 per cent below the July 1970 level would mean a figure of some 470,000. I would like to be able to advocate this as our target for April 1973, but it is much too early to say whether we can achieve it - or less or more.

PROPOSALS RELATING TO APRIL 1971

8. The first question for decision relates to the short term: our intentions for 1 April 1971. I do not myself believe that we can accept a revised ceiling at the kind of level (503,900) indicated in paragraph 5. We could of course argue that we propose to discharge our Election commitment to reduce Civil Service manpower within the lifetime of the present Parliament. We could go on to claim that by checking the trend towards rising manpower figures we are making a good start. However, given the rather simple yardstick which public opinion will apply in this field, I very much doubt that we would get away with this claim. I am therefore convinced that collectively we must and can do a lot better if we are to avoid damaging criticism. In the short time available our room for manoeuvre is restricted and we must concentrate on the in-post figure for 1 April 1971. Ideally our target should be a figure below the 496,000 which we inherited: and we should at the very least force the in-post number below the 500,000 mark. This will enable us to point the contrast with our predecessors' ceiling. To allow ourselves to be pushed above the 500,000 mark by 1 April 1971 would be quite gratuitously handing our critics valuable ammunition. There is, to my mind, quite a lot of symbolism in the half million. This figure, I accordingly submit to my colleagues, we should aim to make our Civil Service Plimsoll Line.
9. If we are to secure a reduction of this sort I shall need the full co-operation of Ministers in charge of Departments: even if necessary in securing economies by just the sort of crude methods which we all dislike and which I hope we can avoid later on. I accordingly urge that Ministers should give further close personal attention to securing the further reductions which we need if we are to keep below 496,000 or at the worst the 500,000 mark by 1 April 1971. For my part, I propose to institute a rigorous monthly review of the staff-in-post figures reported to the Civil Service Department and to have discussions with individual Ministers about them. And I will advise Cabinet further if at any time it appears to me that we are not taking the strong action which is required if we are to achieve an acceptable 1 April 1971 in-post figure.

PROPOSALS RELATING TO APRIL 1972

10. The second question relates to the medium term: our intentions for 1 April 1972. It is clear that a figure of the order of 517,000 for that date would be quite unacceptable. No doubt we could reduce it further by further squeezing and Departments will have to pursue vigorously the economies suggested by the Bellinger Panel and other enquiries. We must all act with urgency and determination to cut out work to this end in every possible way.

11. It is also of the highest importance that every possibility of manpower savings which may arise from any changes in the structure of Government should be promptly secured.

12. But we cannot yet identify or quantify any of these savings, and meanwhile Departments have to inform the Civil Service Department by 15 October of the manpower figures on which they propose to base their 1971-72 Estimates. I invite all my colleagues to give close personal attention to these figures in their Departments, bearing in mind the unacceptable present overall position that I have reported to them and to ensure that their intentions and the possibilities of future savings are fully reflected in major reductions in the bids submitted. I will naturally be reporting to Cabinet again when I have received and reviewed them.

THE LONGER TERM

13. As suggested in paragraph 7, we should by 1972-73 be reaping the full benefit of the reductions in functions that will have occurred by then. A judgment as to the consequent scale of reduction in Civil Service manpower requirements ought to begin to be possible in the course of 1971.
14. Our strategy for containing Civil Service numbers in 1972 and if possible reducing them thereafter will require very careful handling both externally and from the point of view of the staff and staff associations. We should now start drawing public notice to our predecessors' April 1971 ceiling of 505,300. As to the staff, if our policy is to seem defensible we must be able to show that our programmes for reducing functions and reducing staff numbers are going hand in hand, and that understandings about a fair pay structure and progress with reform and modernisation of the Service are not jeopardised. This further emphasises the importance that attaches to the review and elimination of functions as the key to our whole policy here.

MANPOWER IMPLICATIONS OF POLICY PROPOSALS

15. Finally, in order that the importance of the Civil Service manpower implications of our policy thinking is always kept prominently in mind, I propose that it be a standing rule that any proposals put to Cabinet or a Cabinet Committee should include a statement of the best available estimate (made in consultation with the Civil Service Department) of their effect on Civil Service manpower as well as of their cost.

CONCLUSION

16. I invite Cabinet to endorse my proposals above, and in particular to agree:

a. That Departmental numbers between now and 1 April 1971 should be kept under intensified pressure and continuous scrutiny as proposed in paragraph 9, with the objective of forcing their total below 496,000 if possible and in any case below 500,000 on that date.

b. That Ministers be charged to give the closest personal attention to reducing their Departments' manpower estimates for 1 April 1972 as proposed in paragraph 12, as a preliminary to our further reviewing the position for that date in Cabinet and with the aim of keeping the total down to the figure achieved at a.

c. That in reviewing the functions of their Departments Ministers should bear in mind the longer-term Civil Service manpower strategy outlined in paragraph 7.

d. That we adopt as standard practice the rule proposed in paragraph 15.

J

Civil Service Department SW1

15 September 1970
The following is a summary of firm proposals made in Ministerial replies to the letters from the Lord Privy Seal:

<table>
<thead>
<tr>
<th></th>
<th>1 April 1971</th>
<th>1 April 1972</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original ceilings</td>
<td>Changes now proposed</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td>15,112</td>
<td>€</td>
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<tr>
<td><strong>Chancellor of the Exchequer:</strong></td>
<td>18,140</td>
<td>- 100</td>
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<tr>
<td>Customs &amp; Excise</td>
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<td>- 14</td>
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<tr>
<td>Information</td>
<td>70,530</td>
<td>+ 1,380</td>
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<tr>
<td>Inland Revenue</td>
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<td>- 140</td>
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<td>Mint</td>
<td>15,951</td>
<td>- 324</td>
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<td>Stationery Office</td>
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<td>Treasury Sub-Depts.</td>
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<td>Decimal Currency Board, Treasury Solicitor etc.</td>
<td>700</td>
<td>- 2</td>
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<tr>
<td><strong>Civil Service Department</strong></td>
<td>2,195</td>
<td>- 20</td>
</tr>
<tr>
<td>(including Parliamentary Counsel)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Defence</strong></td>
<td>111,500</td>
<td>Nil</td>
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<td><strong>Education &amp; Science:</strong></td>
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<td></td>
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<tr>
<td>DES and UGC</td>
<td>3,344</td>
<td>Nil</td>
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<td>Museums &amp; Galleries (England)</td>
<td>4,033</td>
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<td><strong>Employment &amp; Productivity:</strong></td>
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<td></td>
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<tr>
<td>DEF</td>
<td>31,526</td>
<td>- 300</td>
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<td>CIR, NBPI and Monopolies Commission</td>
<td>476</td>
<td>- 40</td>
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<td><strong>Foreign &amp; Commonwealth</strong></td>
<td>10,451</td>
<td>- 37</td>
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<td><strong>Home</strong></td>
<td>22,583</td>
<td>- 600</td>
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<td><strong>Housing &amp; Local Government:</strong></td>
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<td></td>
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<td>NHLC &amp; Countryside Commission</td>
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<td>Land Commission</td>
<td>950</td>
<td>- 875*</td>
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<td>Ordnance Survey</td>
<td>4,259</td>
<td>- 20</td>
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<td><strong>Lord Chancellor</strong></td>
<td>12,592</td>
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<td><strong>Overseas Development</strong></td>
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<td>- 26/30</td>
</tr>
<tr>
<td>Department</td>
<td>1 April 1971 Original ceilings</td>
<td>Changes now proposed</td>
</tr>
<tr>
<td>----------------------------</td>
<td>---------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Posts &amp; Telecommunications</td>
<td>456</td>
<td>- 26</td>
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<tr>
<td>Public Building &amp; Works</td>
<td>23,446</td>
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<tr>
<td>Scottish Office</td>
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<td>- 49</td>
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<tr>
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<td>71,979</td>
<td>- 4</td>
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<tr>
<td></td>
<td>QPCAS</td>
<td>Nil</td>
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<tr>
<td>Technology</td>
<td>26,115</td>
<td>- 500</td>
</tr>
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<td>Trade: LOT</td>
<td>16,920</td>
<td>- 50</td>
</tr>
<tr>
<td></td>
<td>DOD</td>
<td>Nil</td>
</tr>
<tr>
<td>Transport</td>
<td>10,160</td>
<td>- 170</td>
</tr>
<tr>
<td>Trade: Wales</td>
<td>796</td>
<td>Nil</td>
</tr>
<tr>
<td>Other Departments etc.</td>
<td>4,301</td>
<td>Ø</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>505,300</td>
<td>- 1,412/1,416</td>
</tr>
</tbody>
</table>

* No formal return has been received from the Minister of Agriculture but he has discussed the subject in some depth with the Lord Privy Seal.

* The Land Commission savings assume that about 50/75 staff will be required by a successor department.

‡ MPBW are in fact halving an earlier bid for an increase in their 1.4.71 ceiling and reducing by about 600 a bid for a revised 1.4.72 forecast.

Ø Approaches to "Other Departments" have been made at the official level where appropriate: as they are for the most part very small bodies it is unlikely that any significant savings will be found possible within this group at present.
22 September 1970

CABINET

AID

Memorandum by the Secretary of State for Foreign and Commonwealth Affairs

1. As indicated in Cabinet on 15 September the Minister of Overseas Development has modified his original proposals on the future of the aid programme. I endorse his new suggestions.

2. Development assistance is now a major international business and, from the point of view of our overseas policy as a whole, it is of importance that we should accept as soon as possible the key "Pearson target" of an overall 1 per cent of Gross National Product (GNP) by 1975, on a best endeavours basis. On existing programmes it is probable that we shall fail to hit this target, but only by a fairly small margin which might possibly be made good by stimulation of private investment. To fail to do so would have a disproportionately damaging effect on our international standing and influence.

3. As the Minister of Overseas Development says, the Prime Minister will be attending the United Nations General Assembly in October, at which in effect the Second Development Decade is to be launched. It will be a handicap for him there in putting across Britain's positive interest in development, and in getting a good hearing for points of significance to us, unless he is able to announce our acceptance of the 1 per cent overall target by 1975.

4. Against the background of our discussions on public expenditure, I should not support the proposals of the Minister of Overseas Development unless I were satisfied that what he is suggesting was both essential and a minimum.

5. In the last 5 years of Conservative rule we averaged over 1 per cent of GNP in total flows. As we enter the Second Development Decade we ought to be able to look forward to returning to these standards by the end of the next 5 years.
6. This is important, and I ask my colleagues to agree to the proposals of the Minister of Overseas Development and to accept the target as defined in his paper.

A D-H

Foreign and Commonwealth Office SW1

22 September 1970
CABINET

PROPOSED NEW DESIGN COUNCIL

Memorandum by the President of the Board of Trade

BACKGROUND

1. The Council of Industrial Design (COID) was established in 1944 with the object of promoting by all practical means improvement in the design of the products of British industry. It has stood the test of time, making an increasing impact in the design field and receiving steadily increasing support from industry for its activities. Other countries have followed our example by establishing similar bodies; men prominent in the design field have been willing to accept appointment to the Council and have given generously of their time and talents; its activities have contributed greatly to the marked improvement of the international standing of the United Kingdom in the design field over the last 25 years. It currently costs some £800,000 to run, of which £300,000 comes from charges for services provided and £500,000 from Government grant-in-aid.

2. The main emphasis of the Council’s work has been on industrial as against engineering design. There has been no equivalent body charged with fostering the improvement of standards in the later field, although many believed that one was necessary. In 1963 the Committee on Engineering Design set up by Lord Hailsham stressed the vital importance of engineering design and concluded that insufficient importance was given to design by managements; in consequence, many United Kingdom engineering products were being out-classed in performance, reliability and sales appeal. In 1968 a Working Party of the Council of Engineering Institutions recommended that a new Council should be established, to take over the present activities of the COID and to build on to its organisation a strong engineering design activity. The previous Administration announced in Parliament in April 1969 that they accepted this recommendation in principle and independent consultants were then engaged to review the existing activities of the COID and to advise on questions pertinent to the establishment of a successor Council. Their report has now been reviewed by a Steering Group, composed of representatives of my Department, the Ministry of Technology, COID and the Council of Engineering Institutions and detailed proposals have been put forward for the early establishment of the new Council.
3. In short the proposition is that the total activity of the new Council should be expanded over a period of five years to double that of the COID, with Government assistance rising from the present £1.5 million to £1 million a year. In order to keep costs down to this level, the effort devoted to industrial design would have to be reduced somewhat so that, at the end of the five years, engineering design activities would constitute about two-thirds of the total.

4. The PESC estimates for 1971-72 already include provision for the establishment of the new Council.

5. Both the Minister of Technology and I are convinced that we should, subject to further detailed scrutiny of the proposals in consultation with Treasury Ministers, now approve the establishment of the new Council and announce this decision. Treasury Ministers oppose our taking on this new commitment at this time.

CASE FOR THE NEW DESIGN COUNCIL

6. The main considerations are:

   a. Why expand engineering design activity?

      Greater effort is needed to encourage more talented engineers to make their careers in design, to improve the training of designers and to make management more aware of the vital importance of the design function in their businesses. Expenditure in this field is therefore a valuable investment in the future prosperity of some of our most important growing industries. The most effective and economic way of pursuing this aim is to graft this work on to the existing COID, with all its fund of experience, rather than establish a separate organisation.

   b. Why should industry itself not pay the full cost?

      As with existing COID activities, some considerable part of the total cost will in fact be paid by industry enjoying the benefit of specific services - e.g. charges for the display of goods at exhibitions, fees for courses and for designer training, publications bought etc. Many of the activities, however, will be educational in the widest sense and cannot in practice be provided on a direct full repayment basis - examples are, awards for good design, careers advice, promoting designer training, promotional visits to firms etc.

      It might also be thought that the Council should seek donations from individual firms towards the cost of its general activities. There are two difficulties here: first, the value of the Council is so widely diffused that few firms, and particularly those most needing
the benefit of its activities, would be prepared to support it; and second, by accepting donations from individual firms the Council would prejudice its ability to set high design standards in the goods which it displays in its exhibitions and includes in its index of good design.

c. Could the job be done at a substantially lower cost?

The proposals are considered to provide the minimum level of activity necessary for an effective impact on standards of engineering design. It is estimated that there are some 50 engineering designers for every other industrial designer in the country, and about 16 times as many at graduate level. At the same time, each of the main engineering specialisations has design problems peculiar to itself. Any substantial scaling down of the proposals for engineering design would result in an ineffective organisation which would not command the support of the Council of Engineering Institutions or of other interested bodies.

CONCLUSION

7. The Minister of Technology and I are both convinced that these proposals represent a most desirable, and relatively small, investment in our future prosperity which will pay high dividends, and one which we must accept even in our present difficulties. Both the Council of Engineering Institutions and the Confederation of British Industry have made clear to us their strong support.

8. I accordingly invite my colleagues to approve the reorganisation of the Council of Industrial Design into proposed Design Council without delay, at a cost to public funds which will amount to an additional £1½ million per year when it is fully operative, this approval not to preclude further consideration of the detail of the proposals to determine whether some marginal saving in total costs may not be made.

MACN

Board of Trade SW1

21 September 1970
INTRODUCTION

In the light of the Cabinet's discussions on 14 and 15 September, I am reluctant to make recommendations which may lead to increased public expenditure; but it is necessary for us now to reach decisions about the Government's attitude to the Second Development Decade, to be inaugurated next month at the Special Session of the General Assembly which the Prime Minister will attend.

2. The position is that the British Government in 1964 accepted the first United Nations Conference on Trade and Development (UNCTAD I) target of 1 per cent of national income for financial resource flows to developing countries. At the Second UNCTAD in 1968 the target was raised to 1 per cent of Gross National Product (GNP), comprising official flows, private investment and export credits. The target was accepted by the Governments of developed countries, in most cases with no date attached. The Labour Government accepted it without date on a "best endeavours" basis and subject to a reservation about our balance of payments.

3. During the early 1960s we achieved on average the target of 1 per cent GNP. Official resource flows varied between 0.5 per cent and 0.59 per cent of GNP. Under the Labour Government this percentage gradually declined to 0.39 per cent (see Annex). Last year an unusual combination of high export credits and high investment restored the total flow almost to 1 per cent of GNP. In November the Labour Government undertook to achieve the 1 per cent target not later than 1980, and said it might be achieved soon after 1975 if private flows were high.

4. The future prospects for net private resource flows have recently been analysed by officials. In the mid-1970s they are likely to be less than 0.5 per cent. If so, it will be impossible to get back to the 1 per cent target, with official flows also below 0.5 per cent.
THE PEARSON REPORT AND THE SECOND DEVELOPMENT DECADE

5. The Pearson Report last year called on donor countries to achieve this 1 per cent target by 1975 at latest; and by 1980 at latest a new target of 0.7 per cent for official development assistance. At the 25th Anniversary Session of the United Nations General Assembly next month the Second Development Decade will be inaugurated by the adoption of a "strategy document". This deals with a variety of matters, including trade and shipping as well as aid, but the developing countries regard the question of commitments to increased flows by specified dates as fundamental. The document is likely to recommend the attainment, at least by 1975, of the 1 per cent target for total resource flows and also (in a form not yet settled) a substantial target for official development assistance. If we cannot accept these targets we shall have to declare our reservations, and the Prime Minister's speech at the Assembly will be awaited with special interest.

OUR PRESENT POSITION

6. (i) In opposition, we criticised the inadequacy of the Labour Government’s proposals, and implied that our performance would be much improved.

(ii) In our election manifesto, we accepted the UNCTAD target and undertook to increase the British programme as national prosperity returned.

(iii) The Queen's Speech committed the Government to an expanding aid programme.

THE BRITISH INTEREST

7. I believe it is important, for the following reasons, that we should accept this major concept of the Second Development Decade - the attainment of the 1 per cent target not later than 1975:-

(i) Ten of the sixteen "developed" countries, including France, Germany, Japan and Italy, have already reached 1 per cent, or are prepared to commit themselves to do so by 1975. The Americans are unlikely to accept any date for reaching the target; but their position is unique. By scorning the target date, we should isolate ourselves from major donors like France, Germany and Japan.

(ii) If we stood aside from such a commitment, it might appear that we were going back on our pledge at UNCTAD II, and would imply a lack of confidence in our future economic performance.
(iii) Our unwillingness to improve on our present performance might cause other countries to have second thoughts, and thus put at risk the whole impetus of the Decade.

(iv) A general increase in aid will help Britain. The Commonwealth countries are a large part of the developing world, and much of any general increase is bound to flow to them. British aid is less than 7 per cent of total aid flows, but our share in the trade with developing countries is 9 per cent.

(v) The average per capita income of the growing populations in the developing countries should increase by about 3.5 per cent annually if the major donors (including Britain) achieve the 1 per cent target in the mid-1970s. With anything smaller, the gap in standards between the developed and the developing world will widen still further.

OFFICIAL FLOWS

8. The Treasury proposals for the next four years are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1971/2</th>
<th>1972/3</th>
<th>1973/4</th>
<th>1974/5</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td></td>
</tr>
</tbody>
</table>

*Net at constant prices

in gross cash

as a % of GNP on current forecasts

Before the Cabinet's discussions on 14 and 15 September, I had it in mind to propose the following figures, to bring progressively within reach the percentage of 0.5 per cent for official flows in the financial year 1975/6.

<table>
<thead>
<tr>
<th>Year</th>
<th>1971/2</th>
<th>1972/3</th>
<th>1973/4</th>
<th>1974/5</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td></td>
</tr>
</tbody>
</table>

*Net at constant prices - the sum available each year less capital repayments due from past aid loans deflated to allow for projected price increases.

Gross cash - the sum available in cash each year, the purchasing power of which may be affected by price changes from year to year.
PROPOSALS

9. I do not now think it right to press these figures, but I ask the Cabinet to agree to the following proposals:­

(i) At the General Assembly, the Prime Minister should pledge our best endeavours to reach the 1 per cent target by 1975, with a substantial element of official aid in our total flows; and, to give effect to this, I propose that­

(ii) an interdepartmental Working Party of officials be asked to examine ways of stimulating private investment in the developing countries, so that positive steps could be taken towards the target without throwing a heavy burden on the Exchequer;

(iii) the Treasury proposals for official flows for the years 1971/2 and 1972/3 should be accepted;

(iv) the Treasury proposals for the years 1973/4 and 1974/5 should provisionally stand but should be subject to an assessment in the year 1972/3, both of the effectiveness of measures to stimulate private investment and the extent of official flows necessary to achieve the 1 per cent target;

(v) as a result of that assessment, the figures for the years 1973/4 and 1974/5 should if necessary be revised, in order to make likely the attainment of the 1 per cent target in the year 1975/6.

These proposals would not cause the staff requirements of my Department to increase.

R W

Ministry of Overseas Development SW1

18 September 1970
<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Aid Programme</th>
<th>Net Official Flows</th>
<th>Net Private Investment</th>
<th>Net Export Credits</th>
<th>Total Financial Flows (Net)</th>
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<td>1960</td>
<td>157.3 £m</td>
<td>145.0 £m</td>
<td>159.6 £m</td>
<td>9.8 £m</td>
<td>314.4 £m</td>
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<td>1961</td>
<td>170.0 £m</td>
<td>162.2 £m</td>
<td>131.0 £m</td>
<td>27.3 £m</td>
<td>320.5 £m</td>
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<td>1962</td>
<td>160.9 £m</td>
<td>154.0 £m</td>
<td>75.5 £m</td>
<td>39.6 £m</td>
<td>269.1 £m</td>
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<td>153.2 £m</td>
<td>73.4 £m</td>
<td>36.9 £m</td>
<td>263.5 £m</td>
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<td>1964</td>
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<td>325.4 £m</td>
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<td>200.9 £m</td>
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<td>75.0 £m</td>
<td>41.3 £m</td>
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<td>1968</td>
<td>203.0 £m</td>
<td>178.5 £m</td>
<td>80.0 £m</td>
<td>58.1 £m</td>
<td>316.7 £m</td>
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<td>1969</td>
<td>210.8 £m</td>
<td>178.5 £m</td>
<td>156.0 £m</td>
<td>110.8 £m</td>
<td>445.3 £m</td>
</tr>
</tbody>
</table>
23 September 1970

CABINET

MERSEY DOCKS AND HARBOUR BOARD - FINANCIAL SITUATION

Memorandum by the Minister of Transport

BACKGROUND

My letter of 17 September to the Chancellor of the Exchequer described a serious and urgent financial situation that had just been revealed to me by the Mersey Docks and Harbour Board (MDHB). There were two immediate problems. First, that the MDHB would be unable, without a third-party guarantee, to proceed with a bond renewal of about £1 million on 27 September. Second, that they needed almost immediately a £3 million tranche of a loan under the Harbours Act already agreed for work done on their new Seaforth Dock scheme. Without this loan they would not be able to meet immediate commitments.

2. The recent background to this situation is that the Chairman and Director-General of the MDHB came to see me at the end of July: they admitted that they were in financial difficulties and asked for Government help. I insisted that they should appoint a first rate firm of accountants to investigate their affairs from a short list to be agreed with me and that I should approve the terms of reference. The accountants should report before the end of the year.

3. Messrs. Binder, Hamlyn and Co. were duly appointed early in August. What they found was so alarming that they felt bound to write to the MDHB on 10 September telling them in effect that they were for all practical purposes insolvent. On the MDHB's forecasts there was likely to be a revenue deficit of £2.7 million in 1970 and further deficits totalling £27 million over the next five years. In addition the MDHB had to refinance £28.6 million of its capital debt by the end of 1973, including £6.2 million of bonds falling due on 1 January 1971. The MDHB was also contemplating capital expenditure of over £30 million before the end of 1973. On the basis of these figures Binder, Hamlyn considered that the MDHB would be unable to raise further capital. After consulting their merchant bankers and legal advisers the Chairman of the MDHB came to see my officials as described in my letter of 17 September.
THE £3 MILLION LOAN

4. The problem of the £3 million Harbours Act loan was discussed on 21 September in the Economic Policy Committee (EPC). The advice of the Solicitor General is that since there is a Loan Agreement with the MDHB and the works have been carried out, I remain under a legal obligation to advance this money to the MDHB. Accordingly, in respect of this particular £3 million tranche, no question arises of my incurring any liability to the bondholders or other creditors of the MDHB of the sort that might arise if I were voluntarily to provide the MDHB with funds to enable them to continue trading while insolvent.

5. It is therefore clear that there is no escape from advancing this £3 million tranche of loan and this was accepted by the EPC. I am accordingly proceeding with issuing it this week and I have so informed the MDHB. I have made it completely clear to the MDHB (as my Department have already emphasised to them) that this does not imply any commitment whatsoever on the part of the Government to stand behind the MDHB in meeting their financial obligations to their bondholders or other creditors.

PROPOSED PUBLIC STATEMENT

6. As the MDHB are unable to proceed with the acceptance of any of the £1 million bond renewal on 27 September, Binder, Hamlyn and the Board's merchant bankers, Baring Bros, are now preparing the terms of a statement to be issued to the Press (possibly on Thursday, 24 September). It is expected that this will explain that the MDHB's financial affairs are being investigated by consultants and that pending receipt of the consultants' report the MDHB have decided that they should not renew the bonds.

7. Baring Bros. are considering whether such a statement would hold the position, but we must recognise that in the absence of an assurance of Government financial backing for the MDHB it may not do so. This is, however, a risk I think we must take, in order to avoid the Government blindly incurring an unknown liability with reduced chances then of pressing the bondholders to take a share of the loss or the MDHB to press on with putting their house in order. But, the MDHB must be put in funds to the extent of sufficient cash to meet their liabilities until about the end of the year. By that time Binder, Hamlyn's full report (which will recommend the steps that the Board might take to deal with their problems including possible legislation to deal with a financial reconstruction) should have been received and considered.

THE NEXT FEW MONTHS

8. In addition to the £3 million tranche payable this week, the MDHB are entitled under existing loan agreements to further sums of about £2 million; on the legal advice already received, there seems no doubt that this will have to be paid. But since the EPC discussion it
has become clear that the MDHB's further cash requirements are likely to amount to an additional £3 million, and since the alternative is for the MDHB to cease trading I think we shall have no option but to advance the money. But my colleagues will appreciate that this is likely to have implications of the kind mentioned at the end of paragraph 4, and we must act with this clearly in mind.

THE SEAFORTH DOCK SCHEME

9. I have no doubt that we should continue to make loans to support the Seaforth scheme. The scheme is Liverpool's only hope. Most of the port is obsolescent. It is for this reason that the MDHB decided a few years ago to embark on the Seaforth project now estimated to cost about £40 million. About half of this sum has already been spent and the dock is planned to start coming into use next July. If the project were abandoned, as it might be if we did not continue to make loans and grants (not only the £3 million payable this week and the further sum needed till the end of 1970, but the balance of the cost), I see no future for the port.

LIMITATION OF THE GOVERNMENT'S LIABILITY

10. We should, however, do everything possible to prevent the continuing provision of new capital from involving the Government in any liability to the bondholders and debenture holders much of whose capital has already been lost. It is for this reason that we need a breathing space until the MDHB's advisers have been able to examine their prospects thoroughly and prepare detailed proposals for remedial action. The MDHB have already considered various possibilities, including a 25 per cent increase in charges; closure of part of the Docks; cuts in labour and staff; closure of overseas offices; sales of land; and a large reduction in capital expenditure on improvements and renewals of the existing dock system. If these were all carried out very significant improvements could be secured in the Board's future revenue prospects. But they need careful study (in which my Department and the National Ports Council will need to take part) and they clearly will not avoid the need for some capital reconstruction.

CONCLUSION

11. I will report to my colleagues as soon as possible the outcome of the discussions with the MDHB's advisers (in which I am being advised by a senior partner of Peat, Marwick and Mitchell) and circulate a draft of the MDHB's proposed statement. At the same time the Government's position will have to be made clear, either in a public statement or by a letter to the MDHB.

J W W P

Ministry of Transport SE1
22 September 1970
CABINET

ASSISTANCE TO THE HOTEL INDUSTRY

Memorandum by the President of the Board of Trade

1. We inherited from the previous Administration a scheme of incentives to the hotel industry in the form of grants and loans. When the scheme was devised it was very difficult to judge its likely effect or cost but an estimate made at the time was that it would result in the provision of about 20,000 new hotel bedrooms at an estimated cost to public funds of £19 million in grants and £7 million in loans spread over the years 1969-70 to 1974-75. This estimate has already proved too low and the cost to the Government in grants alone is likely to exceed £30 million perhaps by a substantial margin. This is committed expenditure and we cannot avoid it.

2. The scheme has strict time limits but no financial ceiling. To be eligible projects must start before 31 March 1971 and be completed by 31 March 1973. The British Tourist Authority (BTA) have recommended that the grants part of the scheme should be extended for one year, i.e. that projects started before 31 March 1972 and completed by 31 March 1974 should be eligible. This proposal and certain others put forward by the BTA are discussed in the attached annexes.

3. To extend the grant scheme as proposed would cost an estimated additional £6 million to £8 million, and in my view the high cost makes acceptance of the proposal out of the question. The scheme was devised as a short-term measure, and there has already been a big increase in the level of investment in hotels. I recommend that the scheme be allowed to run its course and lapse in accordance with the time limits laid down in the legislation. Further study is needed before we can judge whether there is a case for any assistance of a long term nature to hotels. Even if there is, I am sure that extension of the present scheme is not the way to give it.

MACN

Board of Trade SW1

22 September 1970
1. INTRODUCTION

1.1 The British Tourist Authority have submitted proposals for an extension of the hotel development incentive scheme incorporated in Part II of the Development of Tourism Act 1969; they recommend also certain longer-term measures of assistance including changes in the tax treatment of hotels. An early decision is needed on the future of the incentive scheme.

2. ORIGIN OF THE INCENTIVE SCHEME

2.1 The present scheme of incentives for hotel development was introduced primarily for balance of payments reasons, both in order to encourage provision of accommodation for overseas visitors and to encourage Britons to take their holiday at home.

2.2 A study carried out in 1967 on behalf of the Hotel and Catering Economic Development Committee showed that investment in new hotels and extensions was less profitable than investment in manufacturing industries generally. The EDC recommended that incentives should be given in the form of depreciation allowances for buildings, investment grants for new equipment, and Government loans.

2.3 The Government at that time, while accepting that there was a case for assistance, did not accept the specific recommendations by the EDC. Instead, provision was made, in the Development of Tourism Act 1969, for a scheme of grants and loans tied to specific types of development and designed to provide a quick shot-in-the-arm to stimulate the building of new hotels and extensions to existing hotels. The scheme was deliberately designed as a short-term measure of a once-for-all kind.

3. MAIN FEATURES OF THE INCENTIVE SCHEME

3.1 The incentive scheme provides for the making of grants and loans for hotel building and extensions. (A brief summary is given in the Annex.) The scheme is open-ended, but the Act specifies that the work on which grant or loan is claimed must have been started between 1st April 1968 and 31 March 1971 and must be completed by 31 March 1973.

4. ESTIMATED COST OF THE INCENTIVE SCHEME

4.1 The cost of grants, over the period of the scheme, was originally estimated at about £19m. This allowed for the payment of grants on 20,000 bedrooms at an average rate of £800 per bedroom and for the expenditure of some £3m. on grants for improvement schemes involving the installation of the specified items of fixed equipment. It assumed that investment would rise from £15m. a year to £25m., a year, of which £20m. was expected to be eligible for grant.

4.2 It was estimated that a further £7m. would be required for loans.

5. COSTS AND EFFECTIVENESS OF THE INCENTIVE SCHEME SO FAR

5.1 Applications for grants now in the hands of the tourist boards
cover the construction of over 30,000 bedrooms, as against the original estimate of 20,000 for the whole period of the scheme. The rate of receipt of new applications continues high. On the basis of present applications about 20% of the bedrooms will be built in Scotland and Wales.

5.2 The cost of grants is now expected to be very much higher than the estimate of £19m. mentioned in para. 4.1. It is unlikely to be less than £30m. and may be much more.

5.3 It is difficult to isolate the effects of the scheme, but there seems no reason to doubt that it has contributed towards the recent growth in investment in hotels.

5.4 It is as yet too early to estimate the likely response to, or costs of, the loan scheme; progress on this part of the scheme is necessarily slower because of the time taken to obtain and examine the information needed from applicants.

6. BTA PROPOSALS

6.1 The recommendations of the BTA are as follows.

6.2 Short-term

(a) the grants provisions of the Incentive Scheme should be extended for 12 months.

The BTA argue that although the scheme was outlined in a White Paper in May 1968, legislation to allow payment of grants and loans and to establish the Tourist Boards did not receive Royal Assent until July 1969. They claim that as a result effective operation of the scheme did not start until 1970. This left about one year (until 31 March 1971) during which the Boards could publicise the scheme and give guidance on the eligibility of particular projects for grants and loans. Many developers, the BTA state, delayed doing any work on projects until they were sure of the terms of the Act.

(b) the provision relating to grants for fixed equipment for hotels should be expanded, and the cost of fire precaution equipment and its installation should qualify as eligible expenditure.

The BTA argue that the present incentives do not afford sufficient help to hoteliers who wish to improve existing accommodation by adding, for example, private bathrooms, and comfortable modern restaurants and bars.

6.3 Long-Term

(a) Loans through a Hotel Development Fund

The establishment of a new body is proposed, which the BTA see as comparable to the Agricultural Mortgage Corporation Ltd., to provide medium-to-long-term finance from sources such as pension funds and insurance companies for larger independently owned hotels.
(b) Loans for small hotels

The BTA advocate a separate scheme for small hotels, to be administered by the Tourist Boards. They propose a scheme covering the whole of Great Britain on the lines of a scheme at present sponsored by the Development Commission. Under this latter scheme, which applies only to rural parts of the development areas, loans are made available to small hotels, boarding houses, holiday chalets and the like. These loans are limited to a £25,000 maximum.

(c) Taxation allowances

The BTA recommend that the hotel trade should be given tax equality with manufacturing industry. They argue that the incentive scheme may eventually stimulate an investment of about £150m. in the hotel industry in Great Britain, adding by over one-third to the current investment value in hotels and that further tax allowances should be given to increase the profitability of this investment, and to enable the industry to remain fully competitive with its European competitors. Tax allowances are advocated in preference to other forms of assistance on the grounds that by benefitting the profitable enterprises they reward and thus encourage efficiency. The tax allowances proposed are:

(i) Industrial building allowance

This would allow the cost of hotel building to be depreciated and written off against profits. The BTA argue that hotel buildings are purpose-built structures with an estimated 30 years life, and that they will rarely have any alternative use. They propose that the same depreciation rates should be allowed as apply to industry.

(ii) Investment grants (or allowances)

The BTA urge that the hotel industry should be eligible for investment grants or allowances on their equipment from the time that the incentive scheme expires. They assert that the withdrawal in January 1966 of investment allowances was "a major blow" to the industry. Hotel equipment, by the nature of the business, depreciates rapidly.

7. COST OF BTA PROPOSALS

7.1 The BTA have not costed these proposals. They argue that "any action taken by the Government would be in a sense self-financing". The rationale of this seems to be that any increased tax revenue accruing from greater tourist spending in Great Britain ought to be regarded as revenue to be used for the benefit of the hotel industry. This can hardly be regarded as a serious argument.

7.2 The Board of Trade have attempted to make an estimate of the probable cost of the various proposals. The figures are necessarily very tentative.
7.3 Cost of the extension of the Incentives scheme for one year

It is estimated that the cost of a year's extension of the present grants scheme would be between £6m. and £8m. This assumes that qualifying investment continues to run at the present estimated level of about £30m. a year. This does not take account of the BTA's proposal (paragraph 6.2(b)) to expand the range of work qualifying for grant.

7.4 Cost of the introduction of the loan scheme

The cost of these proposals (paragraph 6.3(a) and (b)) would depend on the criteria and the scope of the schemes. Because of the tentative nature of the BTA's proposals it is not possible to estimate the likely cost of their adoption. It would however certainly be higher than the present cost of the Development Commission scheme now running at £1m. a year.

7.5 Industrial building allowances

On the assumptions that it would be possible to extend industrial building allowances to hotels in isolation from other commercial buildings and that qualifying investments would be in the region of £30m. to £35m. a year, it is estimated that the adoption of this proposal might cost in the region of £2½m. to £3m. in the first year in terms of lost tax, rising progressively to something in the region of £14m. to £16m. after 21 years, when it would level off. This calculation is at constant prices and assuming that Corporation Tax remains at the present rate.

7.6 Cost of investment grants

It is estimated that qualifying investment would be of the order of £9m. to £10m. a year and that investment grants might cost some £1½m. to £2½m. a year.

8. COMMENT ON BTA PROPOSALS

8.1 General There appears to have been no attempt by the BTA at an objective and critical study of the need for further help from public funds. Their proposals appear to be based on the views of the trade obtained by the circulation of a questionnaire.

Proposed Extension of the Incentive Scheme

8.2 In examining the future supply of hotel accommodation, the BTA start from the incorrect premise that there are at present 5,900 hotels offering 300,000 beds. Studies published by the EDC indicate that there are 9,000 licensed hotels in the country, offering 455,000 beds. If unlicensed hotels and guest houses are included, the total number of establishments may be about 30,000.

8.3 The need for incentives to provide more accommodation, over and above that likely to be produced during the currency of the present incentive scheme, has not been demonstrated. The BTA paper does not provide any evidence that normal market forces will not secure sufficient investment in the future to keep pace with demand. There are indications that profitability in the industry
is improving. Average hotel occupancy has risen from 52% in 1967 to 65% in 1969.

8.4 Nor do the BTA demonstrate that the incentive scheme has been the main factor in the growth of investment. On the contrary, they state in their memorandum that although the scheme has speeded up some investment decisions and encouraged new interest in possible investment, they have not found that as yet new hotel units have been started directly as a result of the Act.

8.5 Other factors must also be taken into account. There is evidence that profitability was improving by the end of 1968 and may now be higher generally than at the time of the EDC study. In certain areas like London special factors (e.g. difficulty in getting office development permits) may also have stimulated interest in building hotels. In response to an enquiry by the BTA, about half the hotel proprietors questioned said that they would have gone ahead with their new investment whether or not there had been an incentive scheme. Nevertheless, it is reasonable to assume that the announcement and introduction of the present scheme has contributed in part to the current upswing in investment.

8.6 The BTA appear to base their case primarily on the argument that some hoteliers did not use the interval between the publication of the details of the scheme in a White Paper and the passing of legislation to plan their projects, and that in consequence, they may not be able to start in time to get grants. In the absence of evidence that this additional accommodation is needed, or will not go ahead without a grant, this argument does not appear to be sufficient to justify the expenditure which would be involved in an extension of the scheme.

Longer Term Proposals

8.7 The BTA's recommendations for continued assistance in the form of tax reliefs and loans are not supported by any study of present and likely future profitability of the industry. The EDC is carrying out a study into the future pattern of demand, investment and profitability of the industry in different parts of the country. This study should be completed by the middle of next year. It seems premature to consider proposals for longer term assistance to the hotel industry by way of grant or loan until the report of the EDC on investment is available; until the Tourist Boards are in a position to assess relative priorities within the tourist field; and until the present review of taxation and public expenditure is completed. It will then be possible to judge where there is a need for further assistance, where this need arises, and what priority it should be accorded in relation to other forms of assistance to tourism and other demands on the public purse.

9. CONCLUSIONS

9.1 The BTA have not established a case for incurring the substantial additional expenditure of public money which extension of the incentive scheme would involve. The scheme was devised as a short-term measure to stimulate investment in hotels, and, on the basis of the applications already made to the Tourist Board, it is clear that the objectives of the scheme have been more than achieved.
9.2 The Board of Trade recommend that consideration of the other proposals of the BTA should await the outcome of the Government's general review of taxation and public expenditure, and the completion of the EDC's study.

BOARD OF TRADE
22 September 1970
MAIN FEATURES OF THE HDI SCHEME

1. The Incentives Scheme provides an entitlement to grants for new hotels, for extensions to existing hotels providing not less than 5 additional letting bedrooms, and for the purchase and installation of certain items of fixed equipment. The rate of grant is 20% of eligible expenditure (25% in Development Areas), subject to an upper limit of £1,000 for every additional bedroom created by the development (£1,250 in Development Areas).

2. To be eligible for these grants an hotel must have at least 10 bedrooms for letting and must have certain other characteristics normally associated with traditional serviced hotel accommodation. The scheme does not extend to self-catering accommodation, nor to bed and breakfast establishments nor to long term residential accommodation.

3. The time limit of the scheme is specified in the Act; the work on which grant is claimed must have been started between 1 April 1968 and 31 March 1971 and be completed by 31 March 1973.

4. The scheme provides no automatic entitlement to loans, but the statute gives the English, Scottish and Wales Tourist Boards, who administer the scheme, power to give loans in addition to grants in suitable cases. Loans cannot normally exceed 30% of the eligible expenditure on new hotels, or 50% of the eligible expenditure on extensions and improvements. The maximum loan is £500,000 for any one project. Loans are given only for projects costing £10,000 or more (£20,000 in the case of new hotels).

BOARD OF TRADE
22 SEPTEMBER 1970
23 September 1970

CABINET

SCHOOL BUILDING PROGRAMMES

Memorandum by the Secretary of State for Education and Science

The conclusions of our meeting on Monday 14 September (CM(70) 16th Conclusions, Minute 2, Conclusion 3) invited Ministers to circulate memoranda on increases in expenditure on which they had not reached agreement with the Chief Secretary, Treasury. The present memorandum explains my proposals for diverting to the school building programme some of the savings which I am willing to make elsewhere in educational expenditure.

SAVINGS IN EDUCATIONAL EXPENDITURE

2. The Chief Secretary proposed the following savings to me and the Secretary of State for Scotland:-

   a. An increase in the school meals charge to 11p in April 1971 and, by further stages of 1p a year, to 14p in England and Wales and 15p in Scotland, accompanied by improved remission arrangements for poorer families worth one-eighth of the estimated gross savings.

   b. Withdrawal of free milk (except for some pupils in special schools) from the school year 1971-72.

   c. Increases in fees for further education courses, beginning in the academic year 1971-72 (England and Wales only).

   d. Institution in 1971-72 of a charge for borrowing books from public libraries.

These measures would save, in Great Britain, about £32 million in 1971-72, rising to about £60 million in 1974-75 - a total of £190 million in the four year period.
3. I have told the Chief Secretary that in general I accept these proposals as reasonable contributions to achieving our aim of reduced public expenditure (though the Paymaster General will be asking the Cabinet to consider the question of principle involved in the proposed libraries charge). I also wish to retain free milk for pupils of nursery and infant age. But I am prepared to forgo the more generous remission arrangements offered by the Chief Secretary and to increase the school meals charges in two stages only, to 12p in 1971 (I am now satisfied, on the basis of the latest estimates of costs, that there is no danger of a charge of 12p exceeding the cost of the meal, even in those areas where it is lowest) and 14p in 1973. The net effect of these modifications is to increase the amount saved over the four year period to £200 million - £10 million more than the Chief Secretary proposes. I understand that the Secretary of State for Scotland is in broad agreement with these modified proposals.

SCHOOL BUILDING NEEDS

4. Our main priority in education, explicitly stated in our Manifesto, is to do more for the primary schools. The only way in which we as a Government can effectively honour this pledge is to increase the school building programme, so that more old and substandard primary schools can be rebuilt. To take only the oldest category, a survey by local authorities in England and Wales shows that there are 700,000 primary pupils - one in seven - in pre-1903 schools which must be kept in service. Replacing them all would require a programme of £175 million (in terms of starts). But as it stands in the official forecasts of expenditure the programme for 1972-73 (which has yet to be publicly announced) provides only £11 million for improvements. This is below the figure of £17 million for 1971-72 allocated by my predecessor and well below the £30 million a year (at 1964 prices) allocated by Edward Boyle in the successive years 1965-68 without a specific pledge to the primary schools. What makes the comparison even more unfavourable is the overall size of the programme - and we shall be judged as much by that as by what we provide specifically for improvements. Leaving aside the special, once for all programme for raising the leaving age, the total at present fixed for 1972-73, (roofs over heads and improvements) is £111 million, compared with the £147.5 million which my predecessor allocated for 1971-72 - a drop of 25 per cent.

5. I want to bring the 1972-73 programme up to the 1971-72 level of starts of £147.5 million by the following means:-

a. By diverting capital resources from other (e.g. further and higher) educational building programmes; the scope is limited but I can raise an extra £8 million of starts for the primary schools in this way.
b. By using £8 million (equivalent to £7 million of starts), leaving £2 million for Scotland, of the extra £10 million which I am prepared to save by my modification of the Chief Secretary's proposals (paragraph 3 above).

c. By drawing the necessary balance of £28 million (£21.5 million starts) from the £190 million savings proposed by the Chief Secretary.

I should then be able, in fulfilment of our Election pledge, to make £47.5 million available for improvements, mainly of primary schools, in the building programme for 1972-73, the first one which I shall announce.

6. I also want to keep up the level of starts in 1973-74 so that there is no drop in the school building programme from that provided by our predecessors. Compared with the level at present fixed this means finding an additional £33 million in starts (£43 million in expenditure). Out of the total starts of £147.5 million, £44 million would then be available for improvements. My Department is examining how much other educational building programmes for 1973-74 can contribute. This is a complex matter, with implications for the future level of provision for higher education, and I am not yet in a position to decide just how much. But, as in 1972-73, I want to draw on the £190 million of savings for that part of the £43 million which my other programmes cannot cover.

7. To sum up, taking the two years 1972-74 together, I seek to divert to school building, from the total of £190 million which the Chief Secretary proposes should be saved, £71 million (of which £59 million would be spent by 31 March 1975) less whatever I can find from other educational building programmes starting in 1973-74. The detailed figures are set out in the Annex. But beyond the mere figures there are broader considerations which I must emphasise. I should not have been willing to make the savings described in this Paper if I had not envisaged diverting some part of them to the school building programme. If this proves impossible I must reconsider from the political viewpoint whether educational expenditure can bear savings totalling £190 million over 4 years and it is not simply a question of the total amount of these savings; we must not give the impression that we are attacking educational expenditure in a wholly negative way, and one which would be quite inconsistent with our declared approach and priorities before the election.

CONCLUSION

8. I invite my colleagues to agree:

a. that the school building programme for England and Wales should provide for starts of £147.5 million in 1972-73 and 1973-74; and
that the necessary additional resources should be provided from the savings of £190 million in educational expenditure proposed by the Chief Secretary, to the extent of £28 million for the 1972-73 programme and of £43 million for 1973-74, less what I find I can divert from other educational building programmes for the latter year.

M H T

Department of Education and Science W1

22 September 1970
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### II. PROPOSED EXPENDITURE FROM SAVINGS

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<td>20.8</td>
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<td>59.4</td>
</tr>
</tbody>
</table>

**NOTES**

1. Expenditure includes the grants to voluntary schools implied by the levels of starts.
2. The figures in line 1. take account of the savings (totalling £1.1m in all) resulting from the switch to primary schools in 1972-73 of £8m starts from other educational building programmes (paragraph 5a).
CABINET

EFFECT OF THE CURRENT PUBLIC EXPENDITURE REVIEW ON GOVERNMENT RESEARCH AND DEVELOPMENT

Memorandum by the Lord Privy Seal

I attach for the information of my colleagues a short factual paper setting out the present position regarding the effect of the current public expenditure review on Government research and development.
EFFECT OF THE CURRENT PUBLIC EXPENDITURE REVIEW ON GOVERNMENT RESEARCH AND DEVELOPMENT

1. This note gives a brief factual account of the likely effect of the present public expenditure review on the Government's research and development (R and D) programme. It has been prepared in the light of the current bilateral negotiations between departmental Ministers and the Chief Secretary of the Treasury; and on information from officials. Base-line figures for Government R and D used here are taken from SCT(70) 3, which is a report prepared by officials using data derived from departmental submissions for the 1970 Public Expenditure Survey. (Because SCT(70) 3 uses a slightly different classification system from that used by PESC, the figures given below do not always correspond exactly with those appearing in the Public Expenditure Situation Report of 6 July 1970.)

2. Estimated Government expenditure on R and D in some years of interest, in money terms, and as a percentage of total Public Expenditure was, on the basis of SCT(70) 3, as follows -

<table>
<thead>
<tr>
<th></th>
<th>1968-69</th>
<th>1971-72</th>
<th>1974-75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government R and D expenditure</td>
<td>about 601</td>
<td>538</td>
<td>526</td>
</tr>
<tr>
<td>Percentage of total Public Expenditure devoted to R and D</td>
<td>2.95%</td>
<td>2.46%</td>
<td>2.21%</td>
</tr>
</tbody>
</table>

These figures, and the break-down in the attached Table II, contain no provision for as yet unapproved industrial ("Category II") projects of the Ministry of Technology such as the BAC 311 (although allowance is made for
such projects in the PESC Report at an estimated expenditure rising to £40 million in 1974-75) because it is difficult to estimate their R and D content. The total Government expenditure on R and D should be seen in the context of total national R and D expenditure of very roughly £1,000 million a year – or about 2.7 per cent of the GNP, a proportion which has remained substantially constant since 1962.

PRESENT POSITION

3. The present position as it affects the three Departments which between them account for about 90 per cent of total Government R and D expenditure is considered below; these 3 Departments are the Ministry of Defence, the Ministry of Technology and the Department of Education and Science. Thereafter, consideration is given to the ten or so executive Departments with relatively small research programmes which together account for the remaining 10 per cent.

MINISTRY OF DEFENCE

4. As part of their review of defence expenditure, the Ministry of Defence are considering the implications of reducing R and D expenditure by £4 million, £10 million and £17 million respectively in 1972-73 and 1973-74 and 1974-75. The relationship of these savings to the rest of the defence programme, and their size and composition, have not yet been firmly established.

MINISTRY OF TECHNOLOGY

5. The Minister of Technology has been asked to make savings of £100 million in 1974-75 in his Ministry's Vote expenditure. But how much of this will fall on R and D, and how much on other expenditure, the Department cannot say at this stage. It should however be noted some of the Ministry's expenditure on R and D is in aid of the executive functions of other Departments, including research on air traffic control and noise for the Board of Trade and on pollution for the Ministry of Housing and Local Government.

DEPARTMENT OF EDUCATION AND SCIENCE

6. The Secretary of State for Education and Science has agreed with the Chief Secretary that expenditure on the PESC block "Research Councils etc" should be cut by £2 million in 1971-72 rising to £5 million (or about 4 per cent of the total block) in 1974-75. This was on the understanding that a pro rata share of the reduction (namely £59,000 in 1971-72, rising to £141,000 in 1974-75)
would fall on Scottish agricultural research, which comes under the Secretary of State for Scotland - see the following paragraph. The Secretary of State for Education and Science has not yet decided what proportion of the cuts falling on her Department's Votes should be borne by the Social Science Research Council; nor has she decided, pending advice from the Council for Scientific Policy, how the remainder would fall individually on the Agricultural, Medical, Natural Environment and Science Research Councils (expenditure on which together comprises the "Civil Science Budget"). It should be noted that a substantial amount of the work of some of the Research Councils (particularly the ARC and the MRC) is closely related to the executive functions of certain Departments.

CIVIL EXECUTIVE DEPARTMENTS

7. The following civil Departments with relatively small R and D expenditure in support of their executive functions were asked to state the effect of the public expenditure review on their R and D programmes.

- Ministry of Agriculture, Fisheries and Food (MAFF)
- Department of Agriculture and Fisheries for Scotland (DAFS)
- Department of Education and Science (Education only)
- Department of Health and Social Security
- Home Office
- Ministry of Housing and Local Government
- Ministry of Overseas Development
- Ministry of Public Building and Works
- Board of Trade
- Ministry of Transport

With the exception of MAFF and DAFS, all reported that their R and D programmes would not be affected. MAFF said that they could make no statement yet about possible cuts in their R and D work because these would be consequent on broader decisions which had yet to be taken. DAFS said that their expenditure on R and D would be unaffected except for Scottish agricultural research, which the Secretary of State for Scotland was still discussing with the Chief Secretary (see previous paragraph).

8. The present state of play is summarised in the last two columns of Table II.
ESTIMATED EXPENDITURE ON GOVERNMENT R AND D
(in £ million at 1970 Survey Prices)

The figures given below, which are based on Table A4 of SCN(70)3, are not directly comparable with those in the Public Expenditure Situation Report (see paragraph 1 above).

Table II

<table>
<thead>
<tr>
<th>R and D component of:</th>
<th>Estimated expenditure based on PESC returns</th>
<th>SAVINGS OFFERED: State of play</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1971-72</td>
<td>1974-75</td>
</tr>
<tr>
<td>Defence Budget</td>
<td>250*</td>
<td>253*</td>
</tr>
<tr>
<td>Civil Aerospace (including Concorde)</td>
<td>60</td>
<td>32?</td>
</tr>
<tr>
<td>Services to Industry (Hintech)</td>
<td>33</td>
<td>34?</td>
</tr>
<tr>
<td>Atomic Energy Authority (civil)</td>
<td>48</td>
<td>33</td>
</tr>
<tr>
<td>Research Councils etc (excluding Scottish agriculture)</td>
<td>104</td>
<td>120</td>
</tr>
<tr>
<td>Civil Departments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NAPP</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>DAPS</td>
<td>6.2</td>
<td>6.9</td>
</tr>
<tr>
<td>D.E.S (education only)</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>L.R.S.S</td>
<td>10.1</td>
<td>9.2</td>
</tr>
<tr>
<td>Home Office</td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>M.H.L.G</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>O.D.M.</td>
<td>3.8</td>
<td>4.9</td>
</tr>
<tr>
<td>I.P.E.W.</td>
<td>3.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Board of Trade</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>M.O.T.</td>
<td>7.6</td>
<td>15.7</td>
</tr>
<tr>
<td>Civil Departments sub-total</td>
<td>(44)</td>
<td>(54)</td>
</tr>
<tr>
<td>TOTAL Government R and D</td>
<td>538</td>
<td>526</td>
</tr>
</tbody>
</table>

* These figures have recently been revised by the Ministry of Defence to £255 million in 1971-72 and £254 million in 1974-75.

? These figures contain no provision for new, as yet unapproved, "Category II" expenditure by the Ministry of Technology (eg on the BAC 311) - see paragraph 2.
24 September 1970

CABINET

PUBLIC EXPENDITURE: TELECOMMUNICATIONS, POSTS AND BROADCASTING

Memorandum by the Minister of Posts and Telecommunications

1. The Post Office has a turnover of £1000 million and an annual capital investment programme of around £450 million rising to £550 million in the next 5 years.

TELECOMMUNICATIONS

2. The telecommunications business accounts for 90 per cent of the capital investment programme. It is expanding fast (at about 10 per cent per annum) and has for years had difficulty in meeting the demands put on it. In particular, the capital programme is restricted by the capacity of the manufacturers of exchange equipment who claim that their performance has suffered because of past cuts in capital expenditure (stop-go). A substantial cut in the capital programme for telecommunications, which is, for these reasons already less than adequate, would have serious consequences in terms of lengthening waiting lists for the telephone and congestion of the system. Thus a cut of 5 per cent, which would reduce capital expenditure by £25 million a year from 1972-73 would probably lead to a waiting list of 500,000 (the post-war peak in 1949 was 460,000) by the end of 1973-74, and congestion on the trunk routes would become serious. It would not be possible to shield any part of the community (e.g., the business sector) from these effects. There would be revenue losses even in the short term, partly offsetting the savings in capital expenditure, and there would probably have to be a very sharp increase in tariffs to damp down demand if complete breakdown were to be avoided. (Increasing the cut from 5 per cent to 10 per cent would intensify these disadvantages and would be largely counterproductive because the additional revenue loss induced would wipe out much of the additional savings).

3. It does not make much sense to cut back the profitable telephone service so long as people are queueing to have it and anxious to pay for it, but a moderate tariff increase (say 10 per cent or 12 per cent on average) in about July 1972 (2 years after the last increases) could yield about
£60 million a year over and above what is required to meet the present target rate of return of 10 per cent on net assets. This would lift the rate of return from 10 per cent to something between 10 per cent and 12 per cent, which would still be modest in relation to the return that would be made by a commercial enterprise in a like expansionist situation. It would be a proper use of the price mechanism to ease the pressure on demand. There could indeed be a marginal saving of capital expenditure, say of £10 million a year, in consequence of decelerating the rate of demand growth. Over the period from July 1972 until April 1975 the extra revenue produced, together with capital savings by this measure would be in the region of £200 million or more. The Post Office's borrowings from the National Loans Fund would be reduced accordingly. At the same time the extra revenue paid by telephone users in the form of increased rentals and call charges (and connection charges) would reduce their demand on general resources.

POSTS

4. The postal investment programme is relatively small, rising from £36 million in 1971-72 to £52 million in 1974-75. The programme is devoted to modernisation and mechanisation, of which the postal services are sorely in need. These measures are essential to the success of the Post Office's efforts to improve productivity and in consequence the net savings from any cut in the capital programme would be small. I should not, therefore, be in favour of this but the proposals now approved for increasing postal tariffs will help the receipts side of our accounts to the tune of over £120 million a year.

POST OFFICE'S UNPROFITABLE ACTIVITIES AND HIVING OFF

5. I have been giving some thought to the possibilities of terminating unprofitable Post Office activities and hiving off activities to the private sector. The only important unprofitable activity is telegrams. The inland telegram service is losing about £2½ million a year. It is dying from natural causes but to stop it immediately would cause a public outcry. The Post Office could reduce the loss by increasing charges and this should probably be done on a suitable occasion. The same applies to the international telegram service which also loses about £3 million a year. To discontinue it would cause international complications. The service is growing: it should be possible to make it viable by means of tariff changes negotiated internationally.

5. As regards hiving off, we have to consider the Giro and the National Data Processing Service (NDPS). The Giro lost £6 million in 1959-70; the Post Office expect it to lose a further £5 million this financial year but think that by 1973-74 it will break even. The Giro was represented by the former Government as a modernisation of the Post Office's traditional role as a money handler. Even before Giro it collected, paid out and transferred thousands of million pounds annually of public and private funds. It operates...
by using the Post Office's facilities and there is nothing that could be handed over to a private operator. The option before us is to continue Giro, or curtail or stop it. The Giro competes with the banks, allegedly on fair terms. I am going into the prospects with the Post Office but I am not yet ready to make recommendations.

7. There remains the NDPS. The Post Office's data processing activities are, in the main, undertaken in aid of the Postal and Telecommunications businesses; and it is natural as well as encourages efficiency that they should sell any spare computer capacity with which they may find themselves from time to time. The NDPS, however, at present competes with the private computer bureaux and incurs a small amount of capital expenditure on this optional business. This optional investment is very profitable however and cutting it down would be likely to be offset in 1974-75 to a large extent by loss of revenue. Moreover, the data processing side of the Post Office would lose something of its commercial motivation and the competitive spur which comes from competing with outsiders. The Post Office has been playing a lead in this field; its training facilities are highly developed and there would quite likely be an overall national loss if its activities were curtailed. Again, there is no possibility here (as with the hotels of British Railways) of handing over a going concern to the private sector. I should not be in favour of curtailing this useful activity on the part of the Post Office, which has the effect of increasing competition in this field.

8. I shall be discussing further with the Treasury the future of Cable and Wireless, of which the shares are at present held by the Treasury. This could be a candidate for "denationalisation" although I understand that a change in status might involve some difficulties in the Commonwealth and other countries concerned, at whose behest the Company was originally "nationalised".

BROADCASTING

9. The capital expenditure programmes of the British Broadcasting Corporation (BBC) and Independent Television Authority (ITA) amount to almost £50 million over the period 1972-73 to 1974-75. I have concluded, after consulting them, that it would be possible for them to make savings in these programmes of slightly more than 5 per cent (£1.7 million BBC and £0.9 million ITA). Here however I should note that two offsetting items may arise. We shall need to provide about £2 million for the setting up of the supervising authority for commercial radio. And again, following a Report due next month by the National Board for Prices and Incomes on the ITV companies' finances, we may well be faced with a need to consider reducing the levy payable by the companies.
CONCLUSION

10. Apart from the contributions which will come from the increases in postal tariffs we have already approved (over £120 million a year) the main effect of my proposals will be to yield upwards of £70 million a year from July 1972 as the result of adopting economic principles of pricing for telecommunications. If my colleagues agree, the details would remain to be worked out with the Post Office (who, I understand, would be willing to accept a higher target rate of return than the present 10 per cent so as to yield increases in revenue of the order required).

CJC

Ministry of Posts and Telecommunications SE1

23 September 1970
24 September 1970

CABINET

A POLICY FOR THE ARTS

Memorandum by the Paymaster General

1. Our Election Manifesto contained the following passage:— "We will continue to give full financial support and encouragement to the Arts. The Arts Council will be strengthened so that it can take a more active role in stimulating regional co-operation and in establishing effective regional arts associations. Local authorities will be encouraged to play a larger role in patronage of the Arts. We recognise the vital importance of private patronage. We will devote special attention to those areas of artistic life such as museums and music colleges which face particularly acute problems".

2. Our policy for the Arts will have to be developed in a variety of directions. This may not require much direct subvention. More skilful use can be made of the mass communications, particularly television, in order to raise the quality of the programmes and activities in which large numbers of people can participate. Where more money is needed, it must come both from public funds and private sources. Public funds could be used more often to stimulate private subventions, which will have the effect of reducing claims on public expenditure and result in more people taking a direct interest in the Arts. Taking an interest in the Arts, like voluntary service in general, is Conservative policy and the experience of other countries shows that this is greatly stimulated by quite modest tax reliefs.

3. I need time to develop my policies in such a way that they can be properly costed and set in the context of a forward-looking programme. Nevertheless, there are some measures we must take in 1971–72 even to hold the position which we have inherited.

ARTS COUNCIL

4. The most immediate problem is the financial situation of the Arts Council, which has reached a state of crisis. During the past five years the Council has done much good work, but it has taken on commitments without being in a position to count the cost for future years. The result
is that, if it is to avoid retrenchment to a degree that would make it impossible to claim we had fulfilled our own pledges, it now needs more money over the next few years than the previous Government had promised. The Arts Council have asked for £12.8 million for 1971-72. I have been into the matter with care and I am satisfied that the minimum grant necessary to maintain the worthwhile activities now supported by the Arts Council is £11.84 million for recurrent and capital expenditure. This figure is in cash terms (1971 prices); those in Tables I and II are at 1970 prices.

5. I am determined to get a grip on the situation which the Arts Council has allowed to develop. Sadler's Wells by the end of 1969-70 had accumulated a deficit of the order of £220,000 in spite of the fact that the previous Government, in liquidating the accumulated indebtedness of Sadler's Wells, the Royal Opera House and the National Theatre gave a clear warning that this must not happen again. In addition, the Welsh National Opera Company had a deficit of £57,000. These deficits would be extinguished in the grant I propose in paragraph 4. I shall insist on stricter planning and control by the Council in future. They will be asked to calculate more realistically the recurrent costs of commitments which they have taken on, and when they accept a new obligation they must see it is properly budgeted for. The fulfilment of these requirements will in future be a condition of their annual grant.

6. Thus, even to make time will involve additional expenditure in 1971-72. This is without any allowance for repairing the comparative neglect of museums and galleries, which do not come under the Arts Council, and no more could be done for the Arts in the regions despite the Government's explicit pledge to increase assistance, unless the Arts Council were able to divert resources from existing commitments.

7. Now for positive policy measures. As I have said, I need time to develop a coherent policy for the Arts and this paper, therefore, does no more than indicate firmly the additional resources needed in 1971-72 together with tentative estimates for the years thereafter up to 1974-75. Table I in Annex I shows the existing PESC forecasts, and Table II the additional sums needed for 1971-72.

LIBRARIES

8. I have not attempted in this paper to deal with my responsibilities for libraries. I am, however, circulating separately a paper on the principle of charging for the use of public libraries and in a few weeks, I will be presenting to my colleagues a draft of a White Paper on the establishment of a British Library, which would administer the most important national library institutions, including the Library of the British Museum.
NEW NATIONAL CAPITAL PROJECTS

9. Such important new projects as the building of a Scottish Opera House, the building of a National Theatre for Wales, and the extension of the Royal Opera House at Covent Garden will be the subjects of a separate paper. The total cost of these projects will not fall in full on central Government funds (e.g. Edinburgh Corporation have asked the Government for a grant approximately half the cost of the Opera House) but for the convenience of my colleagues I have attached at Annex 2, a preliminary breakdown of the incidence of costs on the capital works programme if a decision were taken to proceed with these three major projects of national importance. Provision for Edinburgh Opera House is already included in the PESC forecast prepared by the Secretary of State for Scotland but all these projects cannot be met within the existing forecasts of expenditure without the abandonment of existing policy for the Arts.

NATIONAL MUSEUMS AND GALLERIES

10. The 12-year building programme for national galleries and museums major capital works has now run half its course. It is clear that the funds remaining for the rest of the 12-year period are not sufficient for the essential requirements of the museums and galleries almost all of which have projects in the pipeline. The figures in Annex 1 allow for an increase of some £2 million in 1972-73. I shall review the situation as a matter of urgency, in conjunction with the Secretaries of State for Scotland and Wales and the Minister of Public Building and Works.

11. The national museums and galleries have an urgent need to show better the collections they already have and to meet the demands from scholars and research workers and from the public for education and information. These museums and galleries, strengthened in this way, would be asked to help provincial institutions by loan of collections, advice and training staff. The provision and selection of materials for loans requires adequate storage space and the reserve collections to be fully catalogued. A large backlog of minor works needs to be removed before much more can be done either to improve services on the spot or to help the provinces. A start should be made in 1971-72 towards reducing the backlog in the expectation that the arrears would be cleared within three years. Providing a service to meet the current and growing demands from the public also requires more staff, and there is a very strong case for additional expenditure on wages and salaries in 1971-72 and succeeding years.

12. In conjunction with the Secretaries of State for Scotland and Wales I am looking at the possibility of instituting entrance charges at museums and galleries, and the prospects for a much greater devolution of authority to the national institutions with the aim of making some of their activities, e.g. publications, self-supporting in a commercial sense.
REGIONAL DEVELOPMENT

13. So far I have dealt with national institutions. I now turn to the equally important question of regional activities which we must also develop and strengthen. Private support, not forgetting donations from industry, for regional arts associations could be stimulated if we can prime the pump in a variety of ways. The attraction of the regional associations is that they discover local initiative and support. The associations, which differ widely in their stage of development and effectiveness, do not cover the whole country. The existing associations will have to be strengthened and the gaps filled. If the associations can be helped to produce long-term plans for developing the Arts in their region, it will make it easier to raise the generally low level of support from local authorities, industry and other private sources.

14. The Housing the Arts in the Regions Fund operated by the Arts Council has been highly successful, existing particularly in stimulating the provision of new arts buildings and the improvement of buildings. Under this Fund the Council provide up to 50 per cent of the cost of a new development, the rest being met from private and local authority funds. There is a real danger that the Fund might have to be suspended unless the commitment ration is raised from the present level of £500,000 a year unchanged since 1966. I, therefore, propose that the ration should be £750,000 in 1971-72 and £1 million in 1972-73 and thereafter with the consequent increases in capital expenditure by the Arts Council shown in Table II.

15. Provincial museums and galleries, a small number of which are excellent, which have long been the "poor cousins" of the Arts world, could become important centres for the artistic life of the neighbourhood and the movement already under way to collect and display the materials relating to local activities could be increased. At present, staff display space, facilities for children and amenities are inadequate almost everywhere. At the moment there is no specific incentive for encouraging the development of these museums and galleries and we should start a housing the museums fund analogous to the Housing the Arts Fund. An increase in the grants in aid of purchases by local museums is not at this stage as urgent as help to show better the material they already possess or could be loaned by other museums.

16. The British Film Institute, whose regional film theatres showing the film as an Art form are very popular, deserve extra support.

17. The Arts Council has put up an imaginative scheme for a theatre investment fund designed to reinvigorate the commercial theatre, particularly in the provinces, by backing new productions of quality, with a preference for those which would go on tour. The scheme requires further study, but the intention is that the fund itself would be made up of £0.1 million from the Arts Council and £0.15 million from private resources.
SURVEYS

18. We have not at present enough adequate facts and figures about the demand for the Arts to produce a considered policy on how to improve the market for them. I need to put in hand some wide-ranging surveys, market research and other studies, as have been so intensively carried out in Sweden, so that our future support, both national and regional, can be firmly based on adequate statistics.

CONCLUSION

19. I would hope that these proposals for additional expenditure, amounting to £1.6 million, will not lead to greatly increased demands on central Government funds in succeeding years, and this expectation is based on the belief that substantial sums from private sources and perhaps from local authorities can be attracted.

20. I invite my colleagues to agree that the amount forecast for expenditure on the Arts in 1971-72 should be increased by £1.6 million to sustain the first steps towards the creation of a distinctive policy for the Arts based on the undertaking made in the Conservative Manifesto.

Department of Education and Science W1

23 September 1970
**TABLE I**

Present Peso forecasts for the Arts, 1970-71 to 1974-75: $m., 1970 Survey Prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. National Museums, Galleries, Libraries:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Staff and admin.</td>
<td>8.0</td>
<td>8.7</td>
<td>9.4</td>
<td>10.0</td>
<td>10.4</td>
</tr>
<tr>
<td>(ii) Purchases</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>10.2</td>
<td>10.9</td>
<td>11.6</td>
<td>12.2</td>
<td>12.6</td>
</tr>
<tr>
<td><strong>b. National Museums and Galleries:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Major Works</td>
<td>0.9</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>(ii) Minor Works</td>
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<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1.1</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>c. Other Arts:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Arts Council - recurrent</td>
<td>8.7</td>
<td>9.5</td>
<td>10.4</td>
<td>11.5</td>
<td>12.6</td>
</tr>
<tr>
<td>- capital</td>
<td>0.6</td>
<td>0.8</td>
<td>0.7</td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td>(ii) B.F.I. and N.F.S.(etc)</td>
<td>0.7</td>
<td>0.8</td>
<td>0.9</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>(iii) Others</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>(iv) New National Theatre</td>
<td>1.4</td>
<td>1.8</td>
<td>1.8</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>11.3</td>
<td>13.0</td>
<td>14.0</td>
<td>14.0</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>22.8</td>
<td>25.2</td>
<td>27.0</td>
<td>27.7</td>
<td>28.7</td>
</tr>
</tbody>
</table>

**TABLE II**

New Proposals: $m., additional expenditure

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts Council - recurrent*</td>
<td>0.88**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- capital</td>
<td>0.07</td>
<td>0.37</td>
<td>0.50</td>
<td>0.50</td>
</tr>
<tr>
<td>&quot;Housing the Museums&quot;</td>
<td>0.25</td>
<td>0.5</td>
<td>0.5</td>
<td>0.75</td>
</tr>
<tr>
<td>British Film Institute</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Research and Surveys</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Museums and Galleries - Major capital works</td>
<td></td>
<td>0.96</td>
<td>0.9</td>
<td>0.42</td>
</tr>
<tr>
<td>Museums and Galleries - minor works</td>
<td>0.05</td>
<td>0.15</td>
<td>0.15</td>
<td>0.2</td>
</tr>
<tr>
<td>Museums and Galleries - staff</td>
<td></td>
<td>0.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td>1.6</td>
</tr>
</tbody>
</table>

**NEW GRAND TOTAL FOR ARTS**

26.8

* Including additional help for Regional Arts Associations and 0.1 for Theatre Investment Fund.

** This figure does not take account of pay and price increases.

**NOTE:** Where it is not clear or undecided what would be expenditure under these heads in any year, the table is left blank. The sign " - " indicates that there would be no expenditure under the head and in the year specified.
### TABLE III

CAPITAL EXPENDITURE ON THE THREE INSTITUTIONS LISTED BELOW (£m)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Edinburgh Opera House</td>
<td>0.750</td>
<td>1.300</td>
<td>1.306</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welsh National Theatre</td>
<td>0.333</td>
<td>0.333</td>
<td>0.333</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Royal Opera House    | 0.105   | 0.165   | 3.250*  | 2.165** | 1.065***

* Including (2,500 land  
  0.300 purchase of opera house

** Including 1,100 land

*** (Also £1,065(000) in 1976/77  
( £ 450(000) in 1977/78